

<https://blog.en.erste-am.com/2016/12/30/2016-a-capital-markets-year-in-review/>

## 2016 - a capital markets year in review

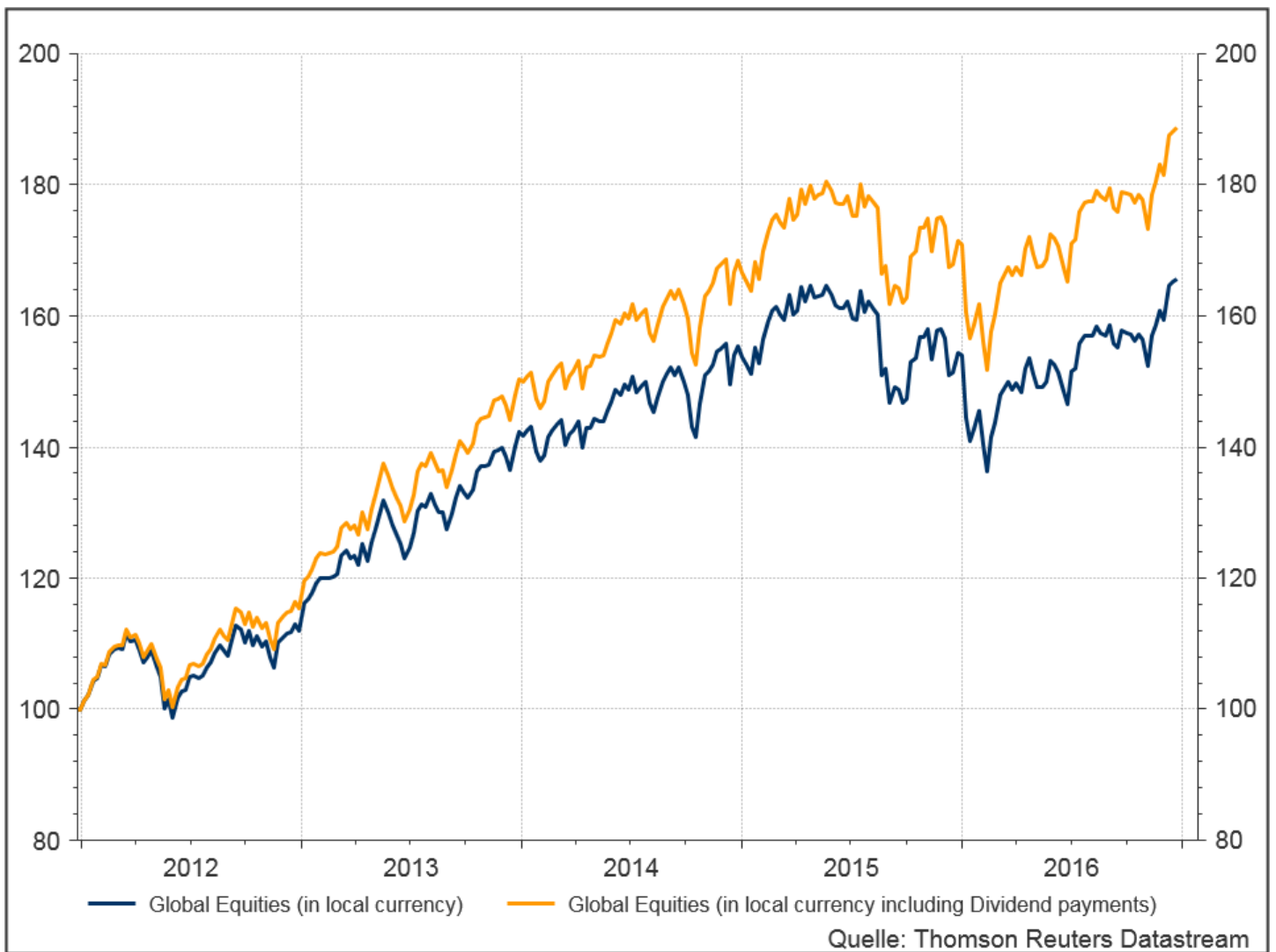
Paul Severin



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2016 was full of surprises on the stock exchanges. At the beginning of the year, economic concerns in China, the second-biggest economy in the world, triggered drastic losses on the stock exchanges. Over the year, cautious optimism gradually returned: the oil price recovered, and the stock exchanges in the emerging markets rebounded. Brexit and Donald Trump failed to affect the sentiment of market players. Instead, the global equity barometer rose particularly in the second half of the year by a large degree (see the chart below). With the help of cyclical companies and financials, which often command heavy weightings, especially US-stock markets set new highs. The development of European and Asian exchanges was relatively disappointing.

**Global equities setting new highs (as of 28 December 2016)**



*Historical performance data are not indicative of the future performance. The chart is based on referential indices, no fees or taxes are considered; Source: Thomson Reuters Datastream (28 December 2016)*

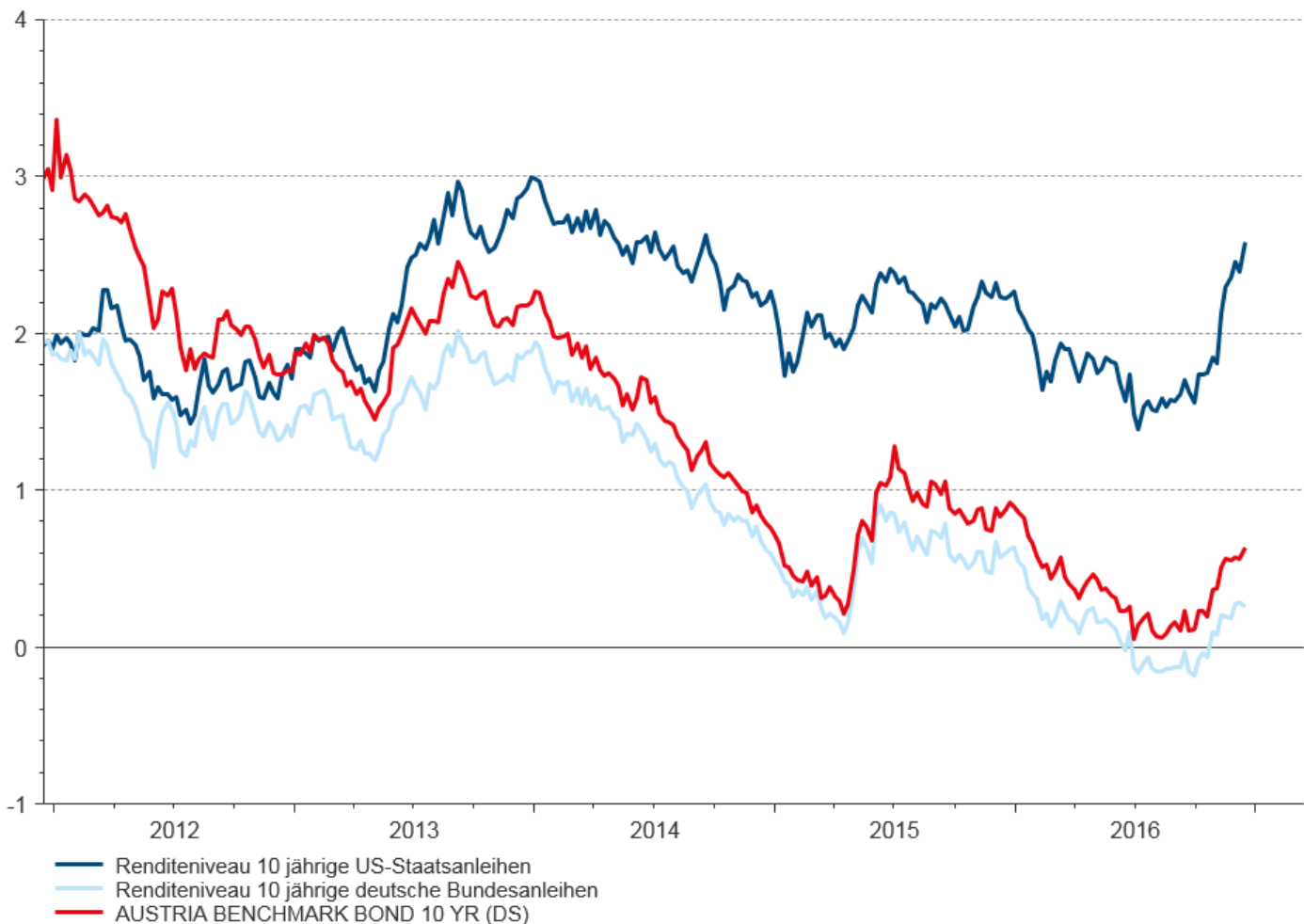
### **ECB stuck to its controversial, expansive monetary policy in 2016**

The European Central Bank (ECB) maintained its expansive monetary course in 2016. Due to the comparatively weak economic growth in Europe and the low inflation rate, the ECB cut its key-lending rate to zero per cent at the beginning of March 2016 and has recently extended its controversial bond purchase programme until December 2017. This sort of monetary policy was supportive to risky asset classes such as corporate bonds, emerging market bonds or high yield bonds.

### **Interest rate increases in the USA having an effect**

The global economic environment has improved, which was not the least reflected in an increase in commodity prices. In the USA, the economy has recently picked up speed, and the economic programme of the new US President should come with a stimulatory effect on inflation. The interest rate increase of 25 Basis Points to a new corridor of 0.50% to 0.75% in the USA in the middle of December 2016, which had been expected by market participants, represented a step towards normality, so was very well appreciated. The yields of 10Y US Treasury bonds have risen to about 2.6% in the past weeks, as a result of which the interest rate differential to European government bonds has widened massively, which the chart below illustrates.

### **Yield comparison US vs. Germany and Austria (10-year Government bonds) as of 28.12.2016**



Quelle: Thomson Reuters Datastream

*Historical performance data are not indicative of the future performance. The chart is based on referential indices. Source: Thomson Reuters Datastream (19 December 2016). Presentation before fees and taxes.*

Currencies reflect the first effects of the Brexit vote in the UK: the British pound lost considerably relative to the euro in 2016. The US dollar, on the other hand, was edging higher, gaining relatively to the euro. Commodity exchanges (esp. oil and gold) were up as well: maybe early indicators for a sound global economy in 2017?

**I wish you all the best for 2017 and continued success with your investments!**

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## Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds

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His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.