02. January 2018

https://blog.en.erste-am.com/2017-positive-year-global-capital-markets/

2017: a positive year on the global capital markets

Paul Severin

© (c) iStock

Capital markets recorded a positive year of 2017. The performance of the various asset classes was of the textbook variety: the higher the risk, the higher the return. At slightly more than 1%, even low-yield asset classes such as euro government bonds or US Treasuries (in USD) posted positive rates of return[1)]. This came as a surprise seeing that many experts had expected higher yields for government bonds, which would have come with negative effects on prices.

Corporate bonds with good to very good ratings and high-yield bonds recorded even higher rates of return. Equity markets were particularly strong, and nowhere more so than in Asian emerging markets. The only fly in the ointment for euro investors was the weak US dollar. Over the year, it lost about 12% vis-à-vis the euro, which was eating into the return of equities for euro investors.

Cryptocurrencies highly popular

2017 was surely also the year of bitcoin, the digital currency. Even if central banks and experts keep issuing warnings and risks such as hacks are looming on the horizon, bitcoin and other cryptocurrencies were in keen demand. However, too many questions remain unanswered to the mind of traditional asset managers. The biggest problem is that of valuation (or the currencies' defiance of valuation). Thus, cryptocurrencies are too speculative for many institutional investors and are therefore not investable.

Robust global economic growth

The good economic performance in Europe and the USA is broadly based and has also captured the weaker, peripheral countries. The US economy has been going through the longest expansionary phase in history. In the emerging economies, the troubled countries of recent years such as Brazil and Russia seem to have overcome their recessions as well and are picking up speed.

Inflation moderate, globally speaking

Central banks were monitoring inflation closely. In 2017, the rate of inflation remained below expectations both in the USA and in Europe. Many economists are surprised that the low unemployment rate and the relatively good capacity utilisation have not caused inflation to rise significantly. In the USA for example, the unemployment rate is 4.1% and thus lower than in decades. The situation in the OECD region is similar.

Central banks are adjusting their interest rate policies

The US central bank has kept its policy of a moderate yet continuous increase of interest rates. It has also started in 2017 to let the government bonds purchased within the framework of the government bond purchase programme expire. The European Central Bank is lagging behind its US peer, sticking to its zero interest-rate policy in the past year.

Austria growing amid higher inflation

The Austrian Institute of Economic Research has revised economic growth upwards to 3.0%. Exports have increased significantly, supporting momentum. After years of weak development, investments are also clearly on the rise. Inflation is the only problematic issue in Austria, having come in at 2.4% in November 2017, i.e. substantially above the EU average of 1.8%. Housing, water, and energy are the price drivers. It will be interesting to see what measures the new government will take.

High political risks

The past year created a large degree of political uncertainty. The missile tests by North Korea, which caused sabre-rattling between the USA and North Korea, was particularly disruptive. But the conflicts between Ukraine and Russia and the controversial constitution referendum in Turkey created uncertainty as well. Also, the risk of terrorism increased significantly in 2017. Given this multitude of increased risks, the stock exchanges experienced surprisingly low levels of volatility overall.

Optimistic for 2018

Most experts are optimistic about 2018 and continue to see good opportunities for investors. However, risks such as an unexpected rise in inflation or possible escalation of a political nature should not be forgotten. Overall, volatility could increase relative to 2017. This suggests actively managed investment solutions, since they can react flexibly to developments on the capital markets.

[1)] Based on indices, prior to fees or costs.

We wish you all the best for 2018 as well as much success with your investment!

Legal note:

Prognoses are no reliable indicator for future performance.

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 at Pioneer Investments Austria in Vienna.

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.

Paul Severin is also on Twitter: @paulseverin