

## Global market volatility continues?

Generally 2015 was forgettable for investors with returns and volatility influenced by a plunging oil price, nervousness created by a slowing Chinese economy plus concern over emerging markets generally, tightening monetary policy in the US but stimulatory settings in other major economies including Europe, China, and Japan (and Australia).

2016 has continued where 2015 left off with indices being sold off due initially to a selloff in Chinese shares and falls in the value of the Renminbi (RMB); concerns over the strength of the Chinese economy flowed through to commodity price weakness and worries over the impact to emerging economies; softer than expected US manufacturing data; and geopolitical risk, specifically tensions between Saudi Arabia & Iran, and the North Korean nuclear tests – all this in just a few weeks!

With all this happening it is easy to capitulate, however it is important to add some perspective to these issues;

- The significant early volatility on Chinese markets were influenced by regulatory issues, specifically a scheduled ban on selling of shares by major shareholders (which has now been amended to a restrictive limit on the size of stakes which can be sold); the introduction of a circuit breaker to halt large index declines which only served to bring forward investor selling to beat the shutdown (the circuit breaker has now been suspended); plus a near 6% decline in the value of the Renminbi (RMB) since July, however there is evidence that the Peoples Bank of China has taken steps to stabilise it again.
- Whilst some data coming out of the US is soft there is still sufficient evidence to show an underlying growth of around 2%.
- We continue to see stimulatory global monetary policy settings particularly in Japan, Europe, and China; and US Federal Reserve tightening is likely to be modest.

The first few weeks of this year have focussed on China (GDP and currency), and the falling oil price; the next thing investors will be focussed on is the upcoming US reporting season where analysts are expecting lower profits on average from American corporations due to the falling oil price impacting energy companies and the stronger US dollar hurting companies with foreign earnings.

The worries outlined above will continue to drive volatility in the short term; however I refer back to previous articles in terms of fundamentals; share market corrections provide attractive valuations; a continued expectation of expansionary global monetary settings; and, sustained modest global economic growth.

In summary we expect 2016 to provide another challenging year for investors but for global markets to recover from their lows as market fears of an impending global recession fade, providing modest positive equity returns globally for 2016 with higher levels of market volatility. For investors, we believe portfolio diversification and asset allocation is the key.

**As with any investment decision one should seek advice from your professional adviser before investing!**

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