

# Market Review

November 2015

## Review of markets over October

October was the month that equities came back. Stock exchanges across the globe had a great month, rebounding from the late summer drawdowns, with most developed market indices popping back into positive territory for the year. Even emerging market equities posted healthy gains for the month, leaving them down only 1.8% year to date. Corporate credit was more mixed, with US and European high yield gaining around 3% each, while global investment grade only rallied 0.6%. Government bonds moved with less dispersion, but peripheral European sovereigns did outperform US Treasuries and UK Gilts. Oil prices bumped around USD 49.6 (month-end, Brent) and USD 46.6 (month-end, WTI) for most of October.

Market volatility was lower during the month, perhaps because the focus was on longer-term economic outlooks and central bank policy instead. Investors watched and waited for monetary policy announcements from the European Central Bank (ECB), the US Federal Reserve (the Fed) and the Bank of Japan (BoJ). While these central banks actually made few changes, it was the change in language and signalling that really mattered for markets.

### Exhibit 1: Asset class and style returns (local currency)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD	OCTOBER
REITS 30.4%	MSCI EM 35.8%	REITS 34.4%	MSCI EM 33.6%	Global Agg 4.8%	MSCI EM 62.8%	REITS 27.6%	REITS 7.3%	REITS 20.1%	Small cap 35.8%	REITS 27.1%	Growth 7.5%	Growth 8.2%
Small cap 20.9%	Small cap 23.3%	MSCI EM 28.8%	Comdty 16.2%	Comdty -35.6%	Small cap 40.8%	Small cap 24.4%	Global Agg 5.6%	Small cap 18.4%	Value 29.7%	Growth 11.5%	MSCI World 4.1%	MSCI World 7.9%
MSCI EM 16.4%	Comdty 21.4%	Value 21.2%	Growth 10.5%	REITS -37.3%	Growth 29.4%	Comdty 16.8%	Value -4.9%	MSCI EM 17.4%	MSCI World 29.6%	MSCI World 10.4%	Small cap 3.5%	Value 7.6%
Value 15.7%	Value 16.7%	MSCI World 16.1%	Global Agg 9.5%	Value -37.7%	REITS 27.4%	MSCI EM 14.4%	MSCI World -5.0%	Growth 16.5%	Growth 29.5%	Value 9.2%	REITS 1.3%	REITS 6.1%
MSCI World 11.8%	MSCI World 16.3%	Small cap 13.6%	MSCI World 5.2%	MSCI World -38.3%	MSCI World 26.5%	Growth 12.7%	Growth -5.1%	MSCI World 16.4%	MSCI EM 3.8%	Small cap 6.7%	Value 0.8%	Small cap 5.7%
Global Agg 9.3%	Growth 16.0%	Growth 11.2%	Value -0.0%	Growth -39.0%	Value 23.6%	MSCI World 10.6%	Small cap -8.7%	Value 16.3%	REITS 3.2%	MSCI EM 5.6%	MSCI EM -1.8%	MSCI EM 5.4%
Comdty 9.1%	REITS 8.3%	Global Agg 6.6%	Small cap -3.8%	Small cap -40.4%	Comdty 18.9%	Value 8.4%	MSCI EM -12.5%	Global Agg 4.3%	Global Agg -2.6%	Global Agg 0.6%	Global Agg -2.0%	Global Agg 0.2%
Growth 7.9%	Global Agg -4.5%	Comdty 2.1%	REITS -17.8%	MSCI EM -45.7%	Global Agg 6.9%	Global Agg 5.5%	Comdty -13.3%	Comdty -1.1%	Comdty -9.5%	Comdty -17.0%	Comdty -16.2%	Comdty -0.4%

Source: Barclays, Bloomberg, FactSet, FTSE, MSCI, J.P. Morgan Asset Management. REITS: FTSE NAREIT All REITS; Comdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in local currency. Data as of 31 October 2015.

### AUTHOR



Nandini Ramakrishnan  
Market Analyst

### EUROPE

The ECB's Mario Draghi said the bank's attitude towards judging whether further action was needed to achieve its objective of inflation near 2% was no longer, "wait and see, but work and assess." Markets reacted to this outright dovishness as expected, with the euro moving down against the dollar after Draghi's press conference. If the ECB does implement further quantitative easing (QE), the next steps would likely be to extend the QE programme past its target end date of September 2016, expand the amount purchased each month, cut the deposit rate further into negative territory—or a combination these measures.

European economic data underlined the eurozone's recovery story. While the Consumer Price Index inched back to zero for October from 0.1% in September, unemployment hit a four-year low, falling to 10.8%. The Composite Purchasing Managers' Index—a measure of activity in the manufacturing and services sectors—rose to 54.0 in October, above expectations and consistent with GDP growth of close to 2%. The generally positive sentiment surrounding the economy was mirrored in most asset classes. Earnings season for eurozone equities got off to a decent start, with year-on-year earnings-per-share (EPS) growth at a solid 4%. Technology, consumer staples, and financials have the strongest EPS growth so far and all sectors delivered positive top-line growth, except energy and materials.

Given the rally in European equities, a poor showing from European corporate and government bonds might have been expected. However, while UK Gilts lost a bit of their impressive year-to-date rally, Italian, Spanish and German sovereigns performed well. Additional stimulus announced by Sweden's Riksbank, coupled with Draghi's dovishness, sent certain eurozone government bond yields to 2H15 lows.

## Exhibit 2: World stock market returns (local currency)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD	OCTOBER
MSCI EM 16.4%	Japan TOPIX 45.2%	MSCI EM 28.8%	MSCI Asia ex Japan 38.0%	UK FTSE 100 -28.3%	MSCI Asia ex Japan 67.2%	MSCI Asia ex Japan 15.6%	US S&P 500 2.1%	Japan TOPIX 20.9%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.7%	Japan TOPIX 10.4%
MSCI Europe ex UK 13.3%	MSCI EM 35.8%	MSCI Asia ex Japan 28.6%	MSCI EM 33.6%	US S&P 500 -37.0%	MSCI EM 62.8%	US S&P 500 15.1%	UK FTSE 100 -2.2%	MSCI Europe ex UK 20.0%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 11.4%	US S&P 500 8.4%
MSCI Asia ex Japan 11.9%	MSCI Europe ex UK 28.6%	MSCI Europe ex UK 22.5%	UK FTSE 100 7.4%	Japan TOPIX -40.6%	MSCI Europe ex UK 29.0%	MSCI EM 14.4%	MSCI Europe ex UK -12.1%	MSCI Asia ex Japan 19.7%	MSCI Europe ex UK 24.2%	MSCI Asia ex Japan 7.7%	US S&P 500 2.7%	MSCI Europe ex UK 8.2%
Japan TOPIX 11.3%	MSCI Asia ex Japan 24.1%	US S&P 500 15.8%	MSCI Europe ex UK 6.6%	MSCI Europe ex UK -42.7%	UK FTSE 100 27.3%	UK FTSE 100 12.6%	MSCI EM -12.5%	MSCI EM 17.4%	UK FTSE 100 18.7%	MSCI Europe ex UK 7.4%	UK FTSE 100 0.1%	MSCI Asia ex Japan 6.5%
UK FTSE 100 11.2%	UK FTSE 100 20.8%	UK FTSE 100 14.4%	US S&P 500 5.5%	MSCI EM -45.7%	US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -14.6%	US S&P 500 16.0%	MSCI Asia ex Japan 6.2%	MSCI EM 5.6%	MSCI EM -1.8%	MSCI EM 5.4%
US S&P 500 10.9%	US S&P 500 4.9%	Japan TOPIX 3.0%	Japan TOPIX -11.1%	MSCI Asia ex Japan -47.7%	Japan TOPIX 7.6%	Japan TOPIX 1.0%	Japan TOPIX -17.0%	UK FTSE 100 10.0%	MSCI EM 3.8%	UK FTSE 100 0.7%	MSCI Asia ex Japan -2.5%	UK FTSE 100 5.2%

Source: FactSet, FTSE, MSCI, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency. Data as of 31 October 2015.

## US

The Fed meeting on 28 October announced no change in rates, as both markets and economists expected. However, there were a few changes in the language of its statement. The emphasis on international concerns was reduced and the Fed also explicitly noted the possibility of increasing interest rates at the next meeting. In terms of actual growth, the US economy continued expanding through the third quarter, with 3Q15 GDP increasing 1.5% quarter on quarter (seasonally adjusted annualised rate). Inventories and trade were a headwind this quarter, but it appears the worst of the inventory drag is behind us and domestic consumption remained strong.

## Exhibit 3: Fixed income sector returns

2009	2010	2011	2012	2013	2014	YTD	OCTOBER
Euro HY 66.1%	US HY 15.1%	IL 10.2%	Euro HY 23.3%	Euro HY 8.8%	Euro Treas. 13.1%	EM Debt 3.5%	EM Debt 6.2%
US HY 58.1%	Euro HY 14.3%	US Treas. 9.8%	EM Debt 18.0%	US HY 7.4%	EM Debt 6.2%	Euro Treas. 2.2%	Euro HY 3.3%
EM Debt 25.9%	EM Debt 11.8%	EM Debt 9.2%	US HY 15.5%	Euro Treas. 2.2%	Euro HY 5.5%	Euro HY 2.2%	US HY 2.7%
Global IG 19.2%	US Treas. 5.9%	US HY 4.4%	Global IG 11.2%	Global IG 0.3%	US Treas. 5.1%	US Treas. 1.4%	Euro Treas. 1.0%
IL 13.6%	Global IG 5.8%	Global IG 4.3%	Euro Treas. 11.0%	US Treas. -2.7%	IL 3.4%	US HY 0.1%	IL 0.7%
Euro Treas. 4.3%	IL 3.0%	Euro Treas. 3.4%	IL 8.5%	IL -3.2%	Global IG 3.1%	IL -1.9%	Global IG 0.6%
US Treas. -3.6%	Euro Treas. 1.1%	Euro HY -1.1%	US Treas. 2.0%	EM Debt -8.3%	US HY 2.5%	Global IG -2.2%	US Treas. -0.4%

Source: Barclays, BofA/Merrill Lynch, FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. IL: Barclays Global Inflation-Linked; Euro Treas: Barclays Euro Aggregate Government - Treasury; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBI+. All indices are total return in local currency. Data as of 31 October 2015.

Manufacturing weakness might be an area of Fed and market focus, as durable goods orders contracted 1.2% in September, mirroring weak industrial production data released earlier in the month. US housing data also looked slightly weaker in September. New home sales were lower than expected, while pending home sales fell 2.3% in the month. Rising home prices were cited as a reason for lower sales. The Employment Cost Index rose 0.6% in the third quarter, showing a gradual pick-up in wages. This stream of mixed data has made it difficult for the Fed to tick off all the boxes needed for a rate hike, making every release until its December meeting all the more important. The 10-year US Treasury yield jumped between 1.97% (the month's lowest point in early October) and 2.17% (the month's highest point, a day after the Fed meeting).

## Exhibit 4: Fixed income government bond returns

2009	2010	2011	2012	2013	2014	YTD	OCTOBER
Italy 8.3%	UK 7.5%	UK 16.8%	Italy 21.3%	Spain 11.3%	Spain 17.0%	Italy 4.8%	Italy 1.6%
Spain 3.6%	Germany 6.4%	US 9.9%	Spain 6.0%	Italy 7.4%	Italy 15.7%	Spain 1.9%	Spain 1.5%
Germany 1.8%	US 6.1%	Germany 9.8%	Germany 4.5%	Japan 2.2%	UK 14.1%	Global 1.5%	Germany 0.4%
Japan 0.9%	Global 4.2%	Spain 6.6%	Global 4.1%	Global -0.4%	Germany 10.5%	US 1.4%	Japan 0.4%
Global 0.7%	Japan 2.5%	Global 6.3%	UK 2.6%	Germany -2.3%	Global 8.5%	Germany 1.2%	Global 0.1%
UK -1.0%	Italy -0.6%	Japan 2.3%	US 2.2%	US -3.4%	US 6.1%	UK 1.1%	US -0.4%
US -3.8%	Spain -4.2%	Italy -5.9%	Japan 1.8%	UK -4.2%	Japan 4.8%	Japan 0.5%	UK -1.4%

Source: FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. All indices are J.P. Morgan GBIs (Government Bond Indices). All indices are total return in local currency. Data as of 31 October 2015.

While the timing of Fed lift-off remains uncertain, S&P 500 returns have been more dependable. The S&P 500 had its best month of the year, gaining 8.4% on a total return basis in October. Earnings momentum supported the rally: 76% of companies in the S&P 500 beat analyst EPS estimates and ex-energy EPS growth year on year was 3% in the last week of October. While half of the companies have yet to publish their statements, more than 70% of index market capitalisation has reported.

## ASIA

At the very end of October, the Bank of Japan postponed its time-frame for achieving 2% inflation for the second time this year. Haruhiko Kuroda kept a bullish attitude on inflation and growth, citing the low oil price as the biggest reason for the delay in reaching the 2% target. At the 30 October meeting, where some expected an announcement of further easing, the BoJ did not modify its asset purchase programme. Despite the central bank keeping additional easing on hold and mediocre earnings reports, the TOPIX rallied steadily over the month, topping the charts in year-to-date and month-to-date returns.

Chinese leaders met in the last week of October and enacted several policy changes. They are determined to manage the slowdown and we expect Chinese economic growth to stabilise near 6%. The One Child Policy has been abolished, but the economic impact will likely be limited in the short term. The Party will increase the emphasis on creating a “moderately prosperous society” by 2020, which likely means a renewed focus on fighting income inequality and improving social welfare.

## Investment outlook for the rest of the year

Investors should prepare for an increase in volatility as markets adjust to US rates moving off of the zero lower bound for the first time in almost seven years, while simultaneously the ECB and BoJ might add more QE. European and Japanese equities look attractive given their supportive central banks. At the same time, US corporates head into 2016 with the previously detrimental high US dollar and low oil price challenges already factored into forecasts and business planning. Divergent monetary policies and growth prospects for large economies will continue to make a selective approach to equities and fixed income a key investment theme for the rest of the year and 2016.

## Exhibit 5: Total returns from markets in October (%)

INDEX	GBP	USD	JPY	EUR	LOCAL
<b>Equities (MSCI)</b>					
MSCI The World Index	5.9	8.0	8.8	9.1	7.9
MSCI USA	6.2	8.3	9.1	9.4	8.3
MSCI Europe ex UK	5.1	7.1	7.9	8.2	8.2
MSCI United Kingdom	5.2	7.3	8.1	8.4	5.2
MSCI Japan	8.0	10.1	10.9	11.2	10.9
MSCI AC Asia ex JP	5.9	8.0	8.8	9.1	6.5
MSCI EM Latin America	4.1	6.1	6.9	7.2	3.0
MSCI EM (Emerging Markets)	5.1	7.1	8.0	8.3	5.4
<b>Bonds</b>					
JP Morgan GBI Global (Traded)	-2.1	-0.1	0.6	0.9	0.1
JP Morgan GBI United States (Traded)	-2.3	-0.4	0.4	0.7	-0.4
JP Morgan GBI Japan (Traded)	-2.2	-0.3	0.4	0.7	0.4
JP Morgan GBI United Kingdom (Traded)	-1.4	0.6	1.3	1.6	-1.4
JP Morgan EMU	-2.0	-0.1	0.7	0.9	0.9
<b>Currencies</b>					
Sterling	na	2.0	2.7	3.0	na
US dollar	-1.9	na	0.8	1.1	na
Yen	-2.7	-0.8	na	0.3	na
Euro	-2.9	-1.0	-0.3	na	na

Source: MSCI, FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. J.P. Morgan Government Bond Indices. Data as of 31 October 2015.

### CONTACT

For any enquiries about this document, please contact:  
Nandini Ramakrishnan – [nandini.l.ramakrishnan@jpmorgan.com](mailto:nandini.l.ramakrishnan@jpmorgan.com)

The Market Insights programme provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the programme explores the implications of current economic data and changing market conditions.

This document has been produced for information purposes only and as such the views contained herein are not to be taken as an advice or recommendation to buy or sell any investment or interest thereto. Reliance upon information in this material is at the sole discretion of the reader. Any research in this document has been obtained and may have been acted upon by J.P. Morgan Asset Management for its own purpose. The results of such research are being made available as additional information and do not necessarily reflect the views of J.P. Morgan Asset Management. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, J.P. Morgan Asset Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. Both past performance and yield may not be a reliable guide to future performance and you should be aware that the value of securities and any income arising from them may fluctuate in accordance with market conditions. There is no guarantee that any forecast made will come to pass.

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co and its affiliates worldwide. You should note that if you contact J.P. Morgan Asset Management by telephone those lines may be recorded and monitored for legal, security and training purposes. You should also take note that information and data from communications with you will be collected, stored and processed by J.P. Morgan Asset Management in accordance with the EMEA Privacy Policy which can be accessed through the following website <http://www.jpmorgan.com/pages/privacy>.

Issued in Continental Europe by JPMorgan Asset Management (Europe) Société à responsabilité limitée, European Bank & Business Centre, 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000.

Issued in the UK by JPMorgan Asset Management (UK) Limited which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank St, Canary Wharf, London E14 5JP, United Kingdom.

**Compliance Number: 0903c02a80e6022e**

**LV-JPM27945 | 10/15**