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Your Investment journey

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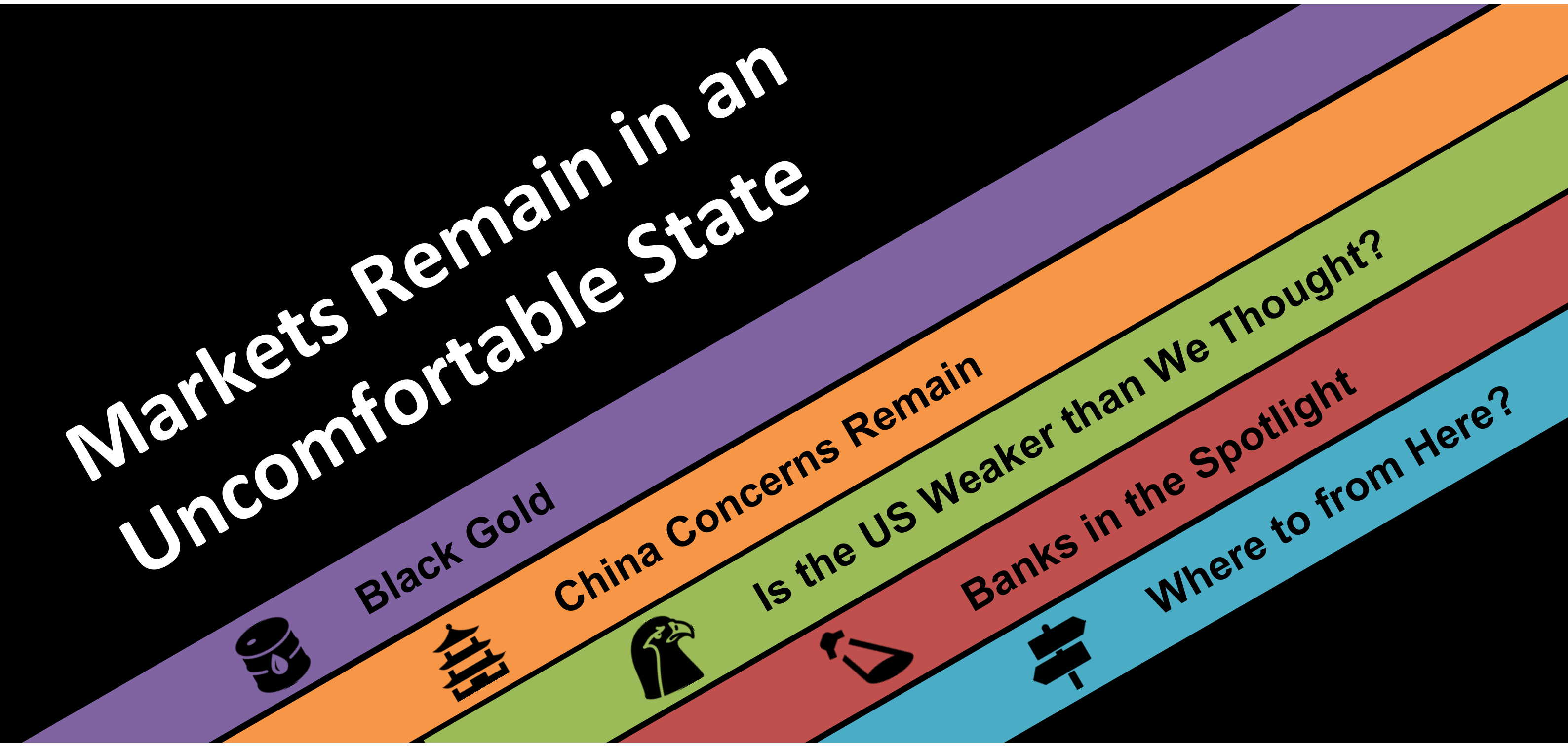

Investment markets have continued to struggle from the start of the year. In fact, they have continued a trend from the last quarter of 2015. In this piece, we will take a look at some of the issues that are concerning investors.

Black Gold

This is another name for oil but it seems to have lost some of its lustre. Oil has tumbled to below $30 a barrel. You might ask is this not a good thing for markets as such a key input as oil will now be less expensive. Remember, energy stocks make up a significant percentage of many stock market indices. For example energy and energy-related shares make up about 12% of the FTSE-100 Index. So falling oil prices will weigh on the performance of these shares and on the markets in general.

A number of oil producing countries have established sovereign wealth funds to invest the vast amount of petrodollars that they have earned. These funds have become critically important figures in the global investment scene. They move in such scale that they can have a substantial impact on markets. There are fears that as the oil price has declined, these funds have been selling shares to help to shore up their domestic finances. This has put further pressure on share prices.

Undoubtedly, lower oil prices can help to boost the consumer. I heard a figure recently that cheaper energy costs will put €800 this year in drivers' pockets. However, the reality is that it can take some time for this benefit to be felt by consumers and ultimately to lift the economy and share prices.

China Concerns Remain

We saw last August that markets sold off when the Chinese authorities devalued their currency against the dollar. They sold off again following further devaluations in January. This forced many other emerging economies to follow suit. It is not the devaluation in its own right that has spooked the markets – it is concern about why they are doing this. Commentators are dubious about certain official news releases and are interpreting the devaluation as a signal that all is not well in China and that the position may be worse than originally believed was the case.

With concerns continuing, overseas investors are understandably getting nervous and substantial amounts of capital have left the country. However, government reserves remain healthy at over $3 trillion.

A lack of conviction from Chinese authorities has not helped matters. In January we saw "circuit breakers" imposed for the first time, whereby the stock exchange closed automatically if markets fell over 7%. This remedy failed miserably and was quickly withdrawn. However, continuing restrictions on large volume share sales has provided some calm.

China remains a very important economy and a vital consumer group. Markets will continue to monitor its fortunes carefully.

Is the US Weaker than We Thought?

Fears about the strength of the US economy emerged this year. Manufacturing has been slowing down for some time but the services sector continues to thrive. US companies reported their 2015 year-end financial figures in January. A number of major players missed analysts' estimates. Others referred to the strength of the US dollar as a real issue for them remaining competitive in domestic and export markets.

While these factors have weighed on investor sentiment, perhaps they have lost sight of a number of key points. The US consumer is the driver of their economy. What we know is that US consumer confidence is strong and that unemployment is at a very low level of below 5%. Furthermore, Corporate America is in reasonable health from a cash flow perspective.

Late last year, markets were predicting 4 interest rate rises from the Federal Reserve in 2016. Those expectations have been pared back considerably. While the US economy is not growing at the strong rates predicted last year, let us not lose sight of the fact that falling energy prices and a healthy consumer should boost figures as the year progresses.

Banks in the Spotlight

Heavily indebted oil exploration companies such as Andarko are cutting dividends in an effort to preserve their cash holdings. Markets are concerned that banks with large exposure to oil companies could come under pressure in the event of default. The risks have increased that certain Latin American oil producing countries could default or seek to renegotiate existing arrangements. Banks also hold a sizeable proportion of corporate bonds issued by energy companies. These issues put pressure on bank share prices in recent weeks.

In a separate development, Deutsche Bank shares fell heavily as analysts raised concern regarding its ability to meet certain debt obligations. Bank shares across the globe sold off heavily as investors worried that the weakening global economy and potential debt problems could put pressure on a fragile financial system. Nerves were calmed somewhat when Deutsche executives announced that they were very comfortable with their capital position and that all debts due could be met as they matured.

So Where to from Here?

The markets are carefully watching for any economic data that will paint a picture of how the global economy is really performing. In the meantime, they are reacting in extreme levels to “noise.” This inevitably leads to short term volatility.

We are hearing from fund managers that they are taking this opportunity to buy into some shares have been sold off indiscriminately. Those that can cut through the short term noise are identifying some compelling value in equity markets. We also see that company executives are buying shares in their own companies at very high levels. This is generally treated as a positive indicator of real value.

While the World economy may not be growing as quickly as predicted, the core message is that it is growing. Global inflation remains low and interest rates are at record low levels. Central banks have committed to taking what steps are necessary to drive growth. While I expect that volatility will remain for some time, long term investors can be well rewarded in a climate like this if they are prepared to stay the course.

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