

# Market Review

2 May 2017

## Review of markets over April 2017

For investors, the main market event in April was undoubtedly the first round of the French presidential election. Markets rallied in relief as centrist candidate Emmanuel Macron made it through to the second round. Combined with the victory for the incumbent prime minister in the Netherlands in March, and the calm market reaction to the triggering of Article 50 by the UK government, many investors are hoping that April represented the high water mark for European political risk, and that a wave of relief can now buoy equity markets.

However, April's relative asset class performance shows that investors moderated their optimism on growth, and their predictions for higher inflation. Bonds almost matched the return from equities whilst growth outperformed value (**Exhibit 1**), revealing renewed caution over the upside in markets as some of the strength of global soft data fell away. The US administration failed to make any significant headway on its reflationary reform agenda, and global tensions dominated our television screens. In the end, this backdrop worked in favour of those broadly invested in markets in the month of April, with both equities and fixed income making gains.

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

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Apr 2017
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 6.5%	Value 15.1%	MSCI EM 10.3%	MSCI EM 2.3%
Small cap 23.3%	MSCI EM 28.8%	Cmdty 16.2%	Cmdty -35.6%	Small cap 40.8%	Small cap 24.4%	Global Agg 5.6%	Small cap 18.4%	Value 29.7%	Growth 11.5%	Small cap 2.8%	Small cap 14.5%	Growth 10.1%	Growth 2.2%
Cmdty 21.4%	Value 21.2%	Growth 10.5%	REITS -37.3%	Growth 29.4%	Cmdty 16.8%	Value -4.9%	MSCI EM 17.4%	DM Equities 29.6%	DM Equities 10.4%	DM Equities 2.6%	Cmdty 11.8%	DM Equities 6.8%	Small cap 1.7%
Value 16.7%	DM Equities 16.1%	Global Agg 9.5%	Value -37.7%	REITS 27.4%	MSCI EM 14.4%	DM Equities -5.0%	Growth 16.5%	Growth 29.5%	Value 9.2%	REITS 2.3%	MSCI EM 10.1%	Small cap 6.1%	DM Equities 1.2%
DM Equities 16.3%	Small cap 13.6%	DM Equities 5.2%	DM Equities -38.3%	DM Equities 26.5%	Growth 12.7%	Growth -5.1%	DM Equities 16.4%	MSCI EM 3.8%	Small cap 6.7%	Value -1.2%	DM Equities 9.6%	Value 3.8%	Global Agg 1.1%
Growth 16.0%	Growth 11.2%	Value -0.0%	Growth -39.0%	Value 23.6%	DM Equities 10.6%	Small cap -8.7%	Value 16.3%	REITS 3.2%	MSCI EM 5.6%	Global Agg -3.2%	REITS 9.3%	REITS 3.5%	REITS 0.5%
REITS 8.3%	Global Agg 6.6%	Small cap -3.8%	Small cap -40.4%	Cmdty 18.9%	Value 8.4%	MSCI EM -12.5%	Global Agg 4.3%	Global Agg -2.6%	Global Agg 0.6%	MSCI EM -5.4%	Growth 4.4%	Global Agg 2.9%	Value 0.3%
Global Agg -4.5%	Cmdty 2.1%	REITS -17.8%	MSCI EM -45.7%	Global Agg 6.9%	Global Agg 5.5%	Cmdty -13.3%	Cmdty -1.1%	Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty -3.8%	Cmdty -1.5%

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Source: Barclays, Bloomberg, FactSet, MSCI, J.P. Morgan Asset Management. REITS: FTSE NAREIT All REITs; Cmdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSC World Small Cap. All indices are total return in local currency. Data as of 30 April 2017.

We may well look back at April 2017 as the turning point for European equities in terms of their performance relative to the rest of the world. Clients have long questioned how much further the US equity market could rise and its valuation relative to other options in the developed world, particularly in Europe. With Europe now moving past some of its biggest flashpoints for risk, it is possible that an era of sustained outperformance by European stocks may now be beginning. After all, the economic backdrop has steadily improved over recent years, the currency remains competitively valued, policy is supportive and both margins and earnings remain depressed. However, it would be foolish to sound the all-clear too early. The second round of the French elections on 7 May 2017 could still produce a shock, Brexit negotiations will be fierce and the Italian elections may soon return to our focus.

Elsewhere in equities, April saw emerging market stocks continue their outperformance against their developed market brethren (**Exhibit 2**)—a trend that has now lasted more than a year. This outperformance, even as commodity prices weaken, shows that emerging market companies are no longer as commodity-dependent as they were just a few years ago. Indeed, there is growing evidence that emerging markets are benefiting from a renewed domestic growth dynamic, and we expect this to drive outperformance in coming quarters.

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

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Apr 2017
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 12.1%	UK FTSE 100 19.1%	MSCI Asia ex Japan 12.7%	MSCI Europe ex UK 2.7%
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 9.1%	US S&P 500 12.0%	MSCI EM 10.3%	MSCI EM 2.3%
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 1.4%	MSCI EM 10.1%	MSCI Europe ex UK 10.1%	MSCI Asia ex Japan 2.3%
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 -1.3%	MSCI Asia ex Japan 6.4%	US S&P 500 7.2%	Japan TOPIX 1.3%
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 Asia ex Japan -5.3%	MSCI Europe ex UK 3.2%	UK FTSE 100 2.3%	US S&P 500 1.0%
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 EM -5.4%	Japan TOPIX 0.3%	Japan TOPIX 1.8%	UK FTSE 100 -1.3%

Source: FactSet, MSCI, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency. Data as of 30 April 2017.

April also made it clear once again that reports of the death of fixed income have been greatly exaggerated (**Exhibit 3**). Geopolitical tensions and political gridlock in the US led to reduced growth and inflation expectations, which drove regular and inflation-linked bond prices higher, and their yields lower. With credit performing well, investors are not anticipating a major slowdown—simply a less marked acceleration than they expected only a few months ago.

### Exhibit 3: Fixed income sector returns (local currency)

2010	2011	2012	2013	2014	2015	2016	YTD	Apr 2017
US HY 15.1%	IL 10.2%	Euro HY 23.3%	Euro HY 8.8%	Euro Treas. 13.1%	EM Debt 1.8%	US HY 17.5%	EM Debt 6.0%	IL 2.7%
Euro HY 14.3%	US Treas. 9.8%	EM Debt 18.0%	US HY 7.4%	EM Debt 6.2%	Euro Treas. 1.6%	Euro HY 10.1%	IL 4.0%	EM Debt 2.2%
EM Debt 11.8%	EM Debt 9.2%	US HY 15.5%	Euro Treas. 2.2%	Euro HY 5.5%	US Treas. 0.8%	EM Debt 9.6%	US HY 3.8%	Global IG 1.4%
US Treas. 5.9%	US HY 4.4%	Global IG 11.2%	Global IG 0.3%	US Treas. 5.1%	Euro HY 0.5%	Global IG 4.3%	Global IG 3.0%	US HY 1.1%
Global IG 5.8%	Global IG 4.3%	Euro Treas. 11.0%	US Treas. -2.7%	IL 3.4%	Global IG -3.6%	IL 3.9%	Euro HY 2.6%	Euro HY 1.0%
IL 3.0%	Euro Treas. 3.4%	IL 8.5%	IL -3.2%	Global IG 3.1%	US HY -4.6%	Euro Treas. 3.2%	US Treas. 1.4%	US Treas. 0.7%
Euro Treas. 1.1%	Euro HY -1.1%	US Treas. 2.0%	EM Debt -8.3%	US HY 2.5%	IL -5.0%	US Treas. 1.0%	Euro Treas. -1.0%	Euro Treas. 0.5%

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 30 April 2017.

Going forward, we maintain our overweight to equities over core fixed income. Resilient, if not rapid, global expansion should keep supporting the equity market as low rates and further central bank bond purchases continue to depress bond yields (**Exhibit 4**).

### Exhibit 4: Fixed income government bond returns (local currency)

2010	2011	2012	2013	2014	2015	2016	YTD	Apr 2017
UK 7.5%	UK 16.8%	Italy 21.3%	Spain 11.3%	Spain 17.0%	Italy 4.9%	UK 10.7%	UK 1.9%	US 0.7%
Germany 6.4%	US 9.9%	Spain 6.0%	Italy 7.4%	Italy 15.7%	Spain 1.7%	Spain 4.2%	US 1.4%	Global 0.6%
US 6.1%	Germany 9.8%	Germany 4.5%	Japan 2.2%	UK 14.1%	Global 1.3%	Germany 4.1%	Global 0.5%	Japan 0.6%
Global 4.2%	Spain 6.6%	Global 4.1%	Global -0.4%	Germany 10.5%	Japan 1.3%	Japan 3.6%	Japan 0.1%	UK 0.2%
Japan 2.5%	Global 6.3%	UK 2.6%	Germany -2.3%	Global 8.5%	UK 1.2%	Global 2.9%	Germany -0.7%	Italy 0.2%
Italy -0.6%	Japan 2.3%	US 2.2%	US -3.4%	US 6.1%	US 0.9%	US 1.1%	Spain -0.7%	Spain 0.1%
Spain -4.2%	Italy -5.9%	Japan 1.8%	UK -4.2%	Japan 4.8%	Germany 0.4%	Italy 0.8%	Italy -1.8%	Germany 0.1%

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 30 April 2017.

### Exhibit 5: Index returns for April (%)

INDEX	GBP	USD	JPY	EUR	LOCAL
<b>Equities (MSCI)</b>					
MSCI World Index	-1.9	1.5	1.6	-0.3	1.2
MSCI USA	-2.3	1.1	1.1	-0.7	1.1
MSCI Europe ex UK	0.8	4.3	4.3	2.4	2.7
MSCI United Kingdom	-1.3	2.1	2.1	0.3	-1.3
MSCI Japan	-2.3	1.0	1.1	-0.8	1.1
MSCI AC Asia ex Japan	-1.2	2.2	2.2	0.4	2.3
MSCI EM Latin America	-3.3	0.0	0.1	-1.7	0.8
MSCI EM (Emerging Markets)	-1.2	2.2	2.2	0.4	2.3
<b>Bonds</b>					
JP Morgan GBI Global (Traded)	-2.1	1.3	1.3	-0.5	0.6
JP Morgan GBI United States (Traded)	-2.7	0.7	0.7	-1.1	0.7
JP Morgan GBI Japan (Traded)	-2.8	0.6	0.6	-1.2	0.6
JP Morgan GBI United Kingdom (Traded)	0.2	3.7	3.8	1.9	0.2
JP Morgan EMU	-1.0	2.4	2.4	0.6	0.6
<b>Currencies</b>					
Sterling	n/a	3.5	3.5	1.6	n/a
US dollar	-3.3	n/a	0.0	-1.8	n/a
Yen	-3.4	0.0	n/a	-1.8	n/a
Euro	-1.6	1.8	1.9	n/a	n/a

Source: MSCI, FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management; Data as of 30 April 2017.

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