GinsGlobal Index Funds

Investment Outlook – November 2012

Global Equities

During November, global equity markets recovered following the immediate US presidential election selloff. By the end of November almost all global equity markets had posted modest gains for the month. Markets continued to rise during much of December, despite the looming US fiscal cliff set to take effect in 2013, should no compromise deal emerge in Washington.

Increasingly, it seems a deal will be agreed to between Republicans and Democrats albeit it at the last minute or very early in 2013.

The Japanese equity market along with European markets - have shown impressive gains during November and December, with the Nikkei now exceeding the psychologically important 10,000 level. By mid December the Nikkei had risen almost 19% for the year, with the FTSE up 9% and within striking distance of piercing the 6000 level. Over the past year, most impressive of all has been the German DAX up 31%, France's CAC 40 up 19%, while the Hang Seng has gained 22% and Singapore almost 19%.

Clearly developments in the Eurozone have calmed markets, having also benefited from the US fiscal cliff negotiations taking center stage. ECB President Draghi's famous summer phrase "we will do whatever it takes", helped bring Europe back form the brink. Ever since, sovereign yields have retreated significantly across the region.

With a new central bank regulator mooted for Europe and tough austerity medicine being taken across the Eurozone, Europe is slowly getting its fiscal and regulatory house in order. However major structural weaknesses persist, particularly in the peripheral countries – particularly Greece. Spain remains reluctant to formally ask for a bailout, but massive Spanish unemployment may necessitate IMF/Eurozone assistance in 2013.

Positive jobs gains in the US, approaching almost 200,000 jobs in November – helped lower the unemployment rate further to 7.7%. Rates are expected to remain very low for another 12-18 months until such time as unemployment falls to the Fed's new targeted rate of 6.5%, at which point rates will be allowed to rise. For now the Fed continues it massive bond buying spree and remains the main buyer of Treasuries – often taking up well over half of US Treasury debt offered at auction.

The overall MSCI World developed market index has gained almost 16% for the year as of mid December. This compares with the MSCI Emerging Markets Index returning approximately 15%. It is clear that most global equity markets will close out the year having recovered all of their mid-year losses. European markets are now touching 3 year highs in December.

Global markets remain on an upward trend with volatility levels at historic lows. The US so-called 'Fear' Index – the VIX, which measures volatility on the S&P 500 is now trading at just 16-17, well below its normal range of closer to 20, and at around half the fear gauge registered earlier this year when it spiked to around 30.

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Unfortunately, the looming fiscal cliff beginning in 2013 continues to worry markets and unless policymakers in Washington strike a compromise within the next few weeks, the market will likely turn downwards, sending a blunt message to the US to get its house finally in order. Despite Obama's victory, the Republicans still control the powerful House of Representatives, with the Senate in Democratic hands. The election did not change any of the controlling power in Washington, resulting in split control over the legislative and executive functions.

US housing continues to show recovery off an admittedly very low base – 40 states posted improved valuations in November, the most in 3 years. While the worst is behind the property sector, there does exist worries of a hidden shadow inventory held on the books of US banks, still requiring major workouts and adjustments. Despite this, the best two sectors in the S&P 500 for 2012, has been financials and consumer discretionary – clear evidence that consumers are feeling more positive and thus beginning to spend. The holiday season sales in the US are expected to show record values between Thanksgiving and New Year.

In the property space both our Funds enjoyed solid performance throughout November. For the 2012 year, the US Property Index (REIT) has gained 12.9%, while the European Citigroup BMI Property Index was up 27.2% for the year to date.

Global Bond outlook

With global equity markets positing impressive recoveries the past few months, it is clear the risk-on trade has gained followers again. Despite weak growth in the US and a Eurozone recession, many believe the Fed and ECB are willing to use additional measures to help bail the economy out.

This was reinforced by Fed Chairman Bernanke's most recent comments that he will keep rates low until unemployment falls to 6.5%. This is an unprecedented move for the Fed to target a jobless rate, before changing course on monetary policy. His comments helped buoy the global market in mid December, although many suspect the bond rally may finally be coming to an end. The 10yr Treasury yield which was as low as 1.4% in October has now risen back to 1.8%.

Continued proactive comments by Draghi, the ECB president following his critically important summer statement of 'we will do whatever it takes', has definitely helped to dramatically lower sovereign yields in peripheral Europe. By early December the sovereign yields for countries such as Spain and Italy were well below there summer highs of approximately 7%.

Increasingly, many feel that the deluge of money sitting in bonds will need to find a new home and begin to switch into equities. Rates in the US may well move higher shortly as more confidence returns to global capital markets. Arguably it is only the pending fiscal cliff negotiations that are holding back a wall of new money ready to enter the equity markets. Assuming the negotiations are fruitful, many analysts predict bond yield will rise over 2% on the 10 year Treasury Note and sounding the alarm for bond investors to begin bailing out of their beloved fixed income investments.

Recent reports on the US housing market indicate that sentiment has bottomed and there is increased buying activity. Even construction activity, one of the largest drags on the US economy appears to have finally begun to turn. Property prices are now rising in 40 out of 50 US states – the first time this has occurred in over 3 years.

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But any gains in these areas are off such a low base that little positive impact is expected to filter though to the GDP growth numbers, anytime soon. The main positive is that they may no longer be pulling the economy down.

US banks remain very cautious and with lending standards still tightening, obtaining a mortgage is increasingly difficult. It is hard to see residential property prices recovering for a number of years – in many of the hardest hit communities.

With the recent positive jobs report in the US posting almost 200,000 new jobs in November, the US is poised to experience a far healthier recovery than Europe in 2013. The lack of severe austerity measures has in fact helped the US recover, while UK and Eurozone policymakers seem to be stuck in severe austerity mode limiting economic growth. China meanwhile has shown positive signs of recovery and staving off any real estate bubble for now. Despite concerns in China and other emerging markets, we continue to predict China will surprise on the upside and manage to show healthy growth figures over the next 6-12 months. Its leaders are highly motivated to ensure a peaceful transition – which recently occurred. State owned enterprises continue to dominate the Chinese economic landscape so managing its GDP growth remains within the leadership's control.

The Global Government Bond index was flat for November, but remains up 2.6% for the year. By comparison the European Government Bond Index gained 1.5% for the month, and up 9.8% over the past year (in Euros).