Investments

11 December 2015

2015 in review: 12 events that shaped global markets

The Architas team look back at a dozen global events that shaped financial markets over the past year.

In what has been another turbulent year for international markets, we reflect and analyse events from the geo-political to regional conflicts and more.

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Oil price decline

The price of Brent crude oil dipped to below $50 a barrel for the first time since May 2009 in January, leading to revenue shortfalls in many energy-exporting nations.

“Improvements in oil fracking technology have lowered oil extraction costs, paving the way for new companies to get into the oil business. Saudi Arabia, one of the largest oil producers in the world, is not happy with the increased competition as it will impact their long-term profitability. The Saudis have increased supply to lower the oil price and put these new companies out of business, as not many can make a profit with the oil price below

$60 a barrel.

The outlook for countries heavily reliant on oil exports appears increasingly difficult. Looking into next year, one would have to consider the potential for a dividend cut from oil majors, as they have maintained their dividends this year on the prospect that the oil price would rebound. BP quoted around $60 a barrel to ensure that dividends could be maintained, yet the oil price has been closer to $40 a barrel for the majority of this year."

Nathan Sweeney, Senior investment manager

World conflict

Russia and Ukraine agreed a ceasefire in eastern Ukraine in February, but 2015 saw a number of violent conflicts across the globe.

"2015 has been a difficult year for geo-politics, with conflict taking centre stage. Events in Syria dominated headlines during the first quarter, but have since been overtaken by the rise of ISIS. The group claimed responsibility for a series of terrorist attacks, most recently the shocking events in Paris.

Aside from the devastating humanitarian impact, we must consider the economic implications as we move into 2016. The price of oil is an obvious place to start; while Middle East unrest is typically a positive catalyst for crude, it is difficult to see the current oversupply trumped by increased military action in Syria. Turning to financial markets, it is likely that continued geo-political unrest will impact volatility on a global scale."

Anna O'Donoghue, Head of research

Strong US Dollar

The dollar enjoyed its quickest rise in 40 years, according to reports in March. America's economy excelled while others – like China's – struggled.

"The US dollar has continued to appreciate during 2015 and is now 20% more expensive against other currencies. The strong dollar is the result of the growing acceptance that the US is in far better shape than the rest of the global economy. The expectation that the Federal Reserve will start raising interest rates is also a factor, particularly with other major central banks continuing to lower theirs.

The impact of the strong dollar is, unsurprisingly, being felt most keenly by American companies with foreign customers, but also for companies and countries that have financed themselves in dollars and are now finding their interest payments more expensive. We wouldn't be surprised if the dollar remained near current levels over the coming months."

Solomon Nevins, Investment manager

UK election

With the threat of a hung parliament concerning investors, David Cameron led the Conservatives to majority election victory in May.

"The outcome of the UK election clearly took the equity, gilt and foreign exchange markets by surprise, as portfolio managers were prepared for a much less clear-cut result.

Investors were not the only ones side-swiped by the result, as opinion pollsters consistently underestimated the Conservative share of the vote throughout the election campaign. In the run up to the election, UK denominated underperformed, but subsequently improved, making up some of the ground lost earlier in the year."

Caspar Rock, Chief investment officer

Grexit

Greece missed a €1.5bn debt repayment to the International Monetary Fund in July, after Eurozone ministers refused to extend the country's bailout.

"The Greek situation became more complicated in 2015, affecting sentiment and behaviour. Today's main issue remains the debt sustainability and the government's ability to implement reforms and reduce public debt. Given the severe recession, budget austerity and tax collection issues, there will be significant risks around the delivery of these reforms.

Since the 'Resolution', Grexit is no longer the primary market concern. The recent large victory of Syriza gives more stability to Tsipras, who now has the legitimacy he needs to implement these measures. No doubt he will attempt to renegotiate and obtain a debt reduction. We would expect tense discussions with European institutions and delays in its applications over the next few quarters."

Paul-Henri Bayart de Germond, Investment analyst

Rising correlations

As expectations of a Fed rate increase grew, the correlation between stocks and bonds also began to rise this summer.

"The rise in the correlation between stocks and bonds, while painful, is not unprecedented. Uncertainty around the Federal Reserve's monetary policy has triggered a period of acute market stress; an environment that has historically seen investors indiscriminately flee financial markets.

Consequently, we have seen both equity and fixed income indices, which traditionally exhibit low correlation, sell off. At times like these, constructing a diversified portfolio can be particularly challenging but investors could look beyond traditional asset classes to more esoteric investment opportunities."

Saskia Bennett, Investment analyst

Chinese Black Monday

In August, China experienced its biggest one-day fall since 2007, with fears the world's second largest economy was heading for a full-blown crisis.

"Between the June highs and August lows, around $5 trillion was wiped from the value of China's main stock exchange. Dubbed 'Black Monday' by the media, the crash caused global indices from Seoul to New York to freefall.

The causes were mixed and many. They were exacerbated by the increasing intervention by authorities, such as the suspension of stocks, forcing retail investors to seek liquidity in other markets. When added to the continuing concern over declining Chinese growth and the mysterious devaluation of the yuan, this caused investors worldwide to panic."

Alex Burn, Investment analyst

Fed Flinch

Given concerns over China and the collapse of oil prices, the Fed resisted the urge to raise US interest rates for the first time since 2006 – although this may change on 16 December 2015.

"The Fed made it clear it wanted to 'achieve rates lift-off' this year, but has also promised that it will react to new data and information as it becomes available.

With the benefit of hindsight, it is now clear that the best opportunity to raise rates came in the summer, but concerns about the global economy and markets stayed the Fed's proverbial hand. Since then, economic conditions have not improved significantly and there is now a risk that a rate-hike will be seen as a policy error, which could choke off any nascent economic growth, rather than a credible response to an inflationary threat."

Sheldon MacDonald, Senior investment manager

Bond market liquidity

In August, the Bank of England raised concerns that efforts to make British banks better regulated may have had a detrimental effect on bond liquidity.

"There's a consensus that liquidity in the bond market is not what it was. Tighter regulation on proprietary trading desks as well as increased capital charges for holding inventory has made market-makers less willing to hold stock and actively trade.

As a result, the fear today is that bond investors run for the exit *en masse* and find the door too small, resulting in significant price volatility. The global financial crisis taught us all that when liquidity evaporates there are few places to hide, so today many managers limit less-liquid allocations to protect against this potentially scary scenario."

Harry Darke, Investment manager

VW & Glencore

In September Volkswagen was embroiled in an emissions test scandal, which impacted around 11 million cars. Meanwhile, the world's biggest mining company, Glencore, saw shares plummet.

"Amid concerns over the health of the global economy, both VW and Glencore proved that even blue-chips can be risky. VW's share price tumbled on its emissions fixing scandal, whilst Glencore provoked concerns over its spiralling debt, twinned with the rout in commodity prices.

These events served as a reminder that a discriminating and diversified approach to stock selection – including scrutiny over corporate governance – is essential, especially at this stage of the cycle."

Jen Causton, Investment analyst

UK inflation remains negative

UK inflation remained negative at -0.1% in October, the first time two consecutive readings had been below zero since CPI records began in 1996.

"A second month of marginal disinflation came as no surprise as tuition fees had been forecast to fall back sharply. Added to this, the recent strength of sterling has pushed import prices down. This has been billed as 'good deflation' with consumers enjoying the knock on effects of lower oil prices to boost their spending, with little inflationary pressure.

This benign effect is due to fall out of year-on-year comparisons early in 2016. The Bank of England maintains a target of 2% inflation over the medium term. Some forecasters do not now see this being reached until 2018. Although the next step is undoubtedly for interest rates to be lifted from their zero level band, there is little short term pressure for the Bank to follow the Fed in hiking rates."

Lorna Denny, Investment specialist

Merger and acquisition activity

2015 is set to post a new record for mergers and acquisitions, with more than $1.8 trillion worth of global deals announced in the first six months alone.

“The recent announcement of Pfizer's proposed huge £100bn merger with Irish pharmaceutical company Allergan (One makes Viagra, the other Botox so take your pick!) is a record for the sector, and caps what has already been a very busy 2015 for M&A turnover.

Healthcare, technology and energy have been the busiest sectors. US companies in particular have been very active as they look to take advantage of low interest rates, high levels of cash on the balance sheet and a strong US dollar to invest overseas. The cynics will argue that tax efficiencies lay behind this particular one, but whatever the rationale, there has been a notable pickup in activity this year and it shows little sign of slowing.”

Steve Allen, Senior investment manager

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