FINANCIERE DE L'ECHIQUIER

Financière de l'Echiquier
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MARKETS UPDATE

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What to make of the decline on European equities markets since 19 September 2014?

The market drop is due to the combination of a number of factors:

- **The decline in commodities prices,** and especially oil (-23% since 1 June), has been read by the market as an early indicator of a slowdown in global growth.
- In addition, **visibility has deteriorated due to geopolitical strains** in the Middle East and Ukraine, compounded by uncertainty concerning the impact of the Ebola virus on global trade.
- In Europe, **lower than expected economic indicators** have prompted investors to undertake arbitrage moves in geographical terms and direct flows into emerging economies.
- Moreover, the ECB has yet to provide a convincing response to **the weak level of inflation,** thereby reviving fears of a Japanese-like scenario for the euro zone.
- This downgrade to inflation forecasts, reflected by lower inflation swaps, is also returning in the US and is feeding **fears of a slowdown in US growth.**
- Finally, **the start of a withdrawal from quantitative easing by the FED** has prompted investors to take profits on certain stocks prior to Q3 results publications.

However a number of fundamental trends are capable of underpinning the market over the medium term:

- **Low prices for commodities** and energy resources are beneficial to the purchasing power of European consumers.
- **Euro weakness** since 1 June, especially relative to the dollar (1.26 at end-September 2014), is a positive factor for Europe and more specifically for exporters companies.
- **The ECB remains active,** under the leadership of Mario Draghi. We are confident in his ability to implement innovative measures to support growth and fight against deflationary risk.
- **Interest rates remain extremely low,** thereby encouraging investors to take risks again and enabling companies to reduce their financial expenses.
- Finally, note **the healthy state of investment grade bonds,** which clearly sets the current drop apart from the 2008 stock markets crisis!

How to act in this context?

➢ The downtrend on European equities markets is not yet exhausted in our view. **In the short term, we favour diversified funds such as ARTY,** which meet the expectations of investors looking for controlled volatility via a portfolio that is well balanced between equities and corporate bonds. The fund reacted well to the upheaval over the summer thanks to its flexible strategy.

➢ We remain convinced that consolidation phases throw up opportunities that should be taken for equities funds. **Over the medium term, Echiquier Major is well positioned to make the most of this backdrop.** Focused on largeEuropean growth stocks, the fund is naturally exposed to big European exporters who should benefit in coming months from advantageous financing conditions.

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