EXCEL FINANCIAL SOLUTIONS
68 Penland Road Haywards Heath RH16 1PH
T 01444 440097
enquiries@excelfinancialsolutions.co.uk www.excelfinancialsolutions.co.uk

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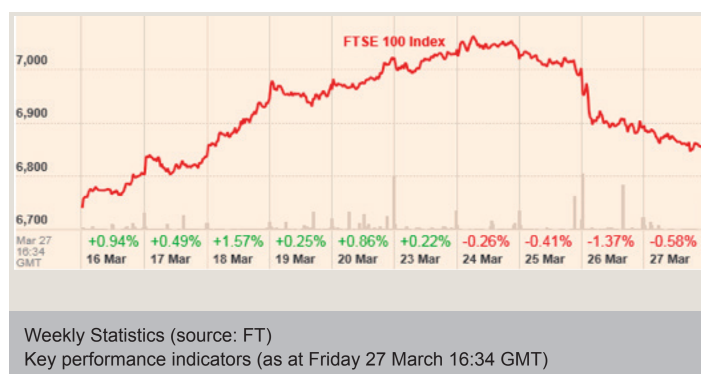
MARKET BULLETIN 27 March 2015

This Market Bulletin has been produced in association with Jupiter. It's intended to provide you with a look back at the events that have affected the performance of global equity markets in the last fortnight. This is a general market update and should not be considered a comprehensive or sufficient basis for making decisions.



Weekly Statistics (source: FT)
Key performance indicators (as at Friday 27 March 16:34 GMT)

	CURRENT VALUE	10 DAY % CHANGE
FTSE 100	6, 855	+ 1.71%
Dow Jones	17, 712	- 0.16%
Nikkei 225	19, 285	+ 0.19%

Day-by-day analysis of FTSE 100 Index

It is easy to be wise after the event, but given the ending of quantitative easing (QE) by the US Federal Reserve in 2014, and therefore no more extra dollars being 'printed', simple economic theory would predict that the price of something that is no longer in excess supply should rise. And it has! From the end of June 2014 to the end of February 2015, the trade-weighted dollar (the value of the US dollar compared against certain major currencies) rose 18.5%[1], a significant help to those exporting to the USA and a headwind for US-based international companies.

Oil price stabilises somewhat, but for how long?
In contrast, the oil price has fallen precipitously since the middle of last year before finding a trading range of roughly $55-$60 in recent weeks. In the Jupiter Independent Funds team, we say that this play has many more acts to run; production in the USA has not slowed down yet, rising to 9.3m barrels per day in February, 1m more per day than a year ago[2]. A quote from the Paris-based International Energy Agency's latest monthly Oil Market Report says it all: "Behind the facade of stability, the rebalancing triggered by the price collapse has yet to run its course, and it might be overly optimistic to expect it to proceed smoothly."[3] In this context, it is notable that US oil storage capacity usage has risen from 48% a year ago to approximately 60% today.[4]

Japanese market confounds sceptics
One country that has always been a significant beneficiary of cheaper oil is Japan, which is the third largest importer of crude oil and oil products in the world.[5] It is perhaps no surprise then that the Japanese market has been rising strongly. This rise has been principally the result of the buying of domestic investors rather than foreigners. Following the lead of the GPIF (Government Pension Investment Fund), which had increased its weighting in Japanese equities to just under 20% at the end of 2014, the Government Employees (aka Civil Service) Pension Fund also announced that it was increasing its domestic equity investment target from 8% to 25% - the same as the GPIF; others may well follow suit.

The amount of money involved here is huge, and there is no doubt of the government's desire and determination to change the Japanese economy for the better. Remember that QE in Japan is still happening, and at a very significant rate. Other factors in favour of the Japanese market currently are significant company earnings growth forecasts, improved corporate governance due to the implementation of a Stewardship Code similar to the UK's, and an improving job situation. We are optimistic for the Japanese market, but think that the yen will likely continue to come under pressure, so a yen hedge seems prudent in the circumstances.

Given the quite extraordinary times through which we are currently living, patience definitely seems to us like a virtue. We continue to believe that well-selected equities can offer investors a reasonable risk-return proposition over the medium term, particularly compared to cash and developed market government bonds, and that talented fund managers continue to have the potential to outperform. The market won't necessarily come around to one's way of thinking overnight, though, which is why we consider patience to be one of the most important traits for any investor.

[1]Source: Bloomberg
[2]Source: Bloomberg
[3]Source: International Energy Agency
[4]Source: US Energy Information Administration
[5]Source: US Energy Information Administration

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