Alpha Value MANAGEMENT

Points of View

Analysis, Research and Texts
by AVM Market Analysis Unit

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From the Editor

Portfolio Manager point of view

We think that the financial market crisis experienced in February was not a trivial technical correction, but warning of the end of an economic cycle, with the consequent entry into a phase of stagnation that is affecting all markets. The scenario presented itself after what happened to be a gradual reduction of "doses" of stimulus in China and Europe, in a normalized world, with US interest rates rising and the renminbi retracement, it was not at all reassuring: the Western economy was exposed in all of its weakness. This led to an immediate and imminent restoration of interventionism loved by all, continuing on the road of European Quantitative Easing, with the creation of further measures on one hand and on the other we had Chinese economy stabilizing the foreign exchange market; all supported by the current freezing of the path of rising US interest rates and a return to the levels before the oil crisis, when the S & P 500 was quoted at around 2100 points (current values). The summation of all this has finally calmed the financial world and has given a breath of fresh air to equity indices. We saw the return of the monetary and credit stimuli, which suspended not only the policy of raising rates, but the discussion around the issue; In fact, the last thing the Fed wants is to be in a position that undermines the presidential elections of November with a market situation similar to that of the end of August'15 or January-February'16. Thus, the rise in the cost of money, although inevitable, can still be delayed until year end. At best it can also be anticipated in June, but only if the markets will be more solid than the current situation, if the performance of the dollar will be normalized and the polls indicate a clear victory on the eve of the YES in the referendum on Brexit. Not only crude oil, in the months to come, will have to avoid reverting to the minimum mark made between late January and early February. At the same time it will also limit its recovery. Therefore, we are expecting a gentle sloped growth curve in markets, and with eyes constantly fixed on US growth this is, and remains, the undisputed DRIVER behind the global economy and its financial markets. Good growth will be able to reject any backlash of speculation and support markets. Otherwise, a weak US growth would put the market in a state of apprehension, foraging fears of an imminent global recession even if the data (as has happened in recent months) let through normal growth conditions (Europe) or good (China and other regions of the world). We are also convinced that weak US growth would negate the effectiveness of current expansionary measures implemented by central banks that would, at that point, rendered as hopeless, useless and counterproductive. In this scenario, emerging markets still have a modest recovery ahead, with room for their currencies to grow but without exaggeration. Russia will sooner or later experience a softening of the European economic sanctions. Turkey, due to the issue of refugees, has begun to enjoy particular European attention that translates into economic and openings for trade aid. In Brazil, the process of political change is picking up speed and will enhance foreign investment. As already stressed the US dollar is a buy in the area of 1.15, and a sell in area 1.10/1.08.

Giorgio Saronne
Portfolio Manager

The point of view of the Central Banks

Note of monetary policy

With caution and at significantly lower rates than expected, the **Fed** is starting its rate hike cycle. In December, for the first time since June 29, 2006, the central bank raised its reference rate (federal funds rate) by 0.25 percentage points. The Fed will raise rates twice in 2016, in June or in September and then in December.

The **ECB**, in meetings of April 21 has not taken new monetary policy measures. In the previous meeting, on March 10, it had cut its three key interest rates: the main policy rate (REFI) was lowered to 0 from the previous 0.05%, the marginal lending rate (MRI) to 0.25 from 0.30% the previous year, and the overnight deposit rate to -0.40% from -0.30%.

It was also decided to increase purchases in the QE plan for an additional 20 billion bringing the total to 80 billion Euros per month, and the basis of purchase for some types of corporate bonds has also been enlarged.

It was also agreed on four new stages of TLTRO at subsidized rates.

These monetary policy actions are as usual aimed at supporting growth and to bring the inflation rate to a level close to but below 2%.

The ECB rates will remain near zero for a long time, because the central bank does not see conditions to stop or slow the expansive monetary policy of this stage.

Draghi said that rates will remain at these levels until the deadline of the QE program, and even beyond if necessary. In fact, the real question is whether the maximum effort fielded by the ECB, without substantial support from governments, will be enough to stem the negative effects of an obvious structural slowdown. The answer is not obvious at all.

Stefano Bagnoli
AVM Market Analysis Unit

Main Scenario Hypotheses

Growth and Inflation

US growth remains good, close to the potential, with a light decrease last quarter. The earnings of corporate America remain in-line or better than expected; but, in some cases recording negative surprise (Microsoft, Apple and Google in particular).

Eurozone recovery continues, albeit with different features in different countries. The earnings of Eurozone companies continue to remain in line with expectations.

Inflation

Policymakers have stated for years that they aim to have inflation close but below 2%: this would result in a strengthening of aggregate demand, today under the potential. Furthermore, in this way it would attempt to recreate the conditions for a structural rise in interest rates (both the Fed and ECB policy rates, both the market rate, on all maturities of the curve), and thus restore the profitability of the banking system, which has been challenged by this long period of compressed margins. Secondly inflation slightly higher, with rates that remain relatively low would become a opaque extent but efficient public debt writedown.

Markets

Geopolitical Risk

The prolonged global slowdown and the gradual remodel of the planetary geopolitical balance reproduce conditions favorable to new local conflicts and / or global. Even the risk of attacks is constantly increasing. Everything (risk attacks and potential for conflict) decreases the levels of confidence of consumers and investors. Moreover, the war scenarios make relations difficult between the countries involved (and not only), penalizing businesses, with negative impact on GDP and corporate earnings.

China

Despite opinions to the contrary from bad analysts informed, China continues to grow at very elevated rhythms. From 10.6% a few years ago we switched to 6.5% at present, exposed in the Five-Year Plan 2015-2020 of the Government.

Stefano Bagnoli
AVM Market Analysis Unit

Other Analysis

Oil - There was a positive trend for the US WTI crude oil in April. It reached the announced target of 42 USD/bar but has also outperformed this announced target, reaching 45/46 USD/bar. This allowed us to confirm the value of the fixed technical support in the area of 35 USD/bar (the transit area of the 100 day moving average) but above all, it found a short-term ascending channel with which we can easily follow the evolution of the situation. Therefore, now we will focus on the lower part of the said channel (currently 41.50/42.40

USD/bar and 44.50 USD/bar in the second half of May) as an attractive entry point for any outlets with a speculative position. One needs to be careful in finding positions which then will follow up to the target of 50 USD/bar. It is, in fact, a significant threshold both from the dynamic point of view (upper part of the ascending channel) and the static point of view (relative maximum of September - October 2015). Crossing these values will give a significant turning point for the medium-term trend that, thus, will align with the positive short term trend. In contrast, the sell orders will be monitored up to the strategic support of 41.50 US$/bar, if the price is falls beyond this strategic support line, we will have to review the technical framework outlined above.

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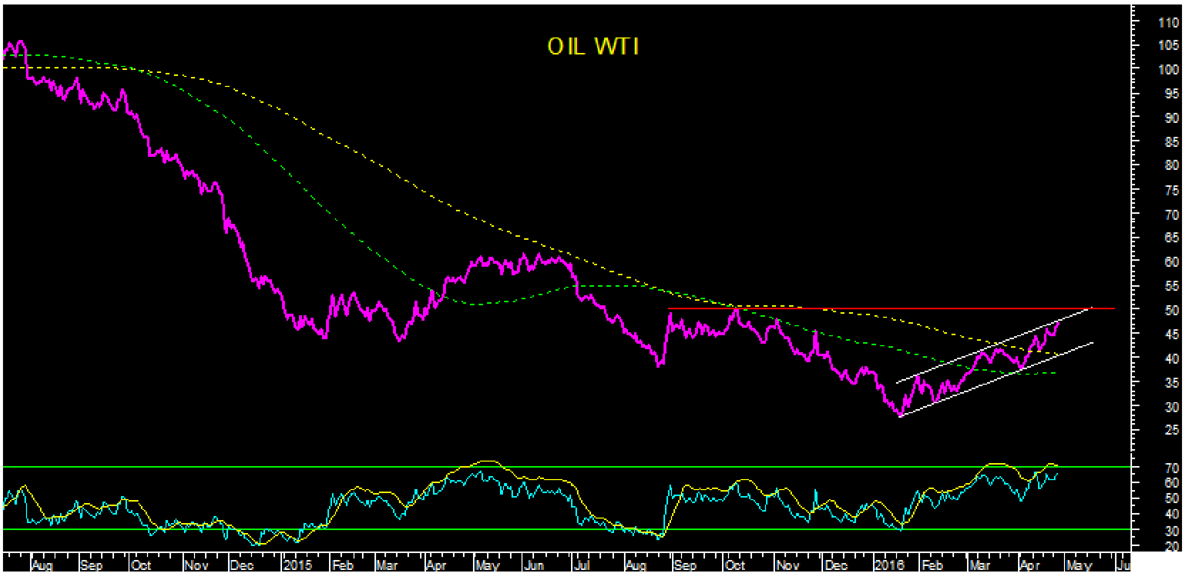

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