GLOBAL GOINGS-ON IN PERSPECTIVE

There are three factors that have been weighing on the minds of investors lately; namely the Greek crisis, the collapse in the Chinese stock market and the looming first hike in US interest rates.

Grexit and the fate of the Eurozone

Our view is that, while now may not prove to be a good time to be living in Greece, the Greek crisis is unlikely to derail economic recovery in Europe. For example, the Greek stock market constitutes a meagre 0.03% of the MSCI All Country World Index. Ultimately, we believe Greece poses less risk today, considering the risk just a few short years ago, as the Eurozone is in a far healthier space given that Spain, Portugal and Italy are recovering and rebalancing; there are stronger backstops in place such as the ECB’s quantitative easing programme and the European rescue fund; and European banks have significantly less exposure to Greek debt.

There is obviously some short-term volatility being created as we move through the unchartered waters of a possible Grexit. However, we view this as a potential buying opportunity and maintain our preference for global equity and, more specifically, European equity within a global equity context.

China in transition

One of our long running themes has been that of “China transition”, where we have warned that although China is still growing, the rate of growth is likely to slow and the mix of growth will gradually shift from investment to consumption. The recent collapse in the Chinese stock market has attracted headlines, but it should be viewed in context. The stock market had soared 122% from the beginning of the year to its peak and is now back to the levels it traded at in late March 2015. The question is whether or not this collapse over the last few weeks will spill over into the economy and cause an even sharper slowdown in growth.

The Chinese government has plenty of ammunition to arrest a sharp decline in growth and has already reduced one year lending rates and deposit rates, with scope for further cuts. They are also attempting to stabilise the stock market through suspending IPOs, creating a market stabilisation fund and providing liquidity support to their clearing house.

Overall, our view remains one of a structural slowing of the Chinese growth rate. As such, we maintain an underweight resources position as we expect commodity prices will remain under pressure in this environment. Our preference within local equities remains global companies such as Naspers (Chinese consumer), Steinhoff (European furniture retailer) and also financials, where we see attractive and secure dividend yields.

Lower US rates for longer

The market has been speculating for a while now on the impending hike in US interest rates for the first time in a number of years. We have maintained the view that rates will remain lower for longer given the fragile nature of the economic recovery in addition to inflation remaining low. We recognise that rates may be increased in September or December this year, but would be surprised by an aggressive US rate cycle.

We expect data to improve in the second half of 2015 following a weather-affected start to the year. Data is mixed, but there are signs that consumption is picking up, with the leading indicator being strong. We would not be surprised by a bout of volatility as the hike draws near, but are not overly concerned about this given the muted nature of the cycle and the extensive communication from the Federal Reserve around it.

Global preferences
In the medium to long term, global equity remains our preferred asset class. We are underweight US equity in a global equity context, given its strong performance over the last few years, and maintain our preference for European and Japanese equity where we see better value.

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