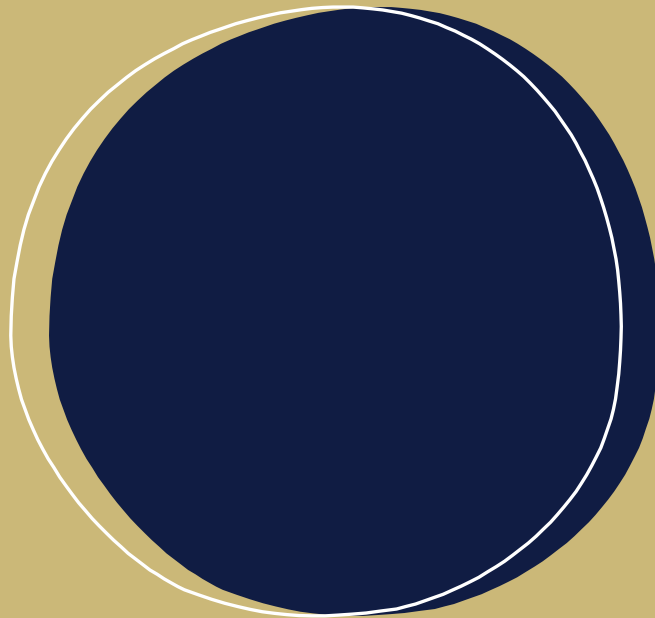


News from the financial markets

Tactical reduction of equities quota

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Tactical reduction of equities quota

Bernd Hartmann, Asset Allocation Strategist

March was the best month in 18 years for global stock markets. But in our view, this is not indicative of a trend reversal but instead a mere "bear market rally". We are going on the assumption that the market recovery will lose steam and ultimately lead to another stock-price correction aimed at the previous lows. For the time being, we are reducing the equities quota in our discretionary mandates.

Equity market rebound

March witnessed the anticipated countertrend move (see March 10 issue of "News from the financial markets"). Prior to the bounce, the financial headlines were uniformly negative, the market itself was in a highly oversold condition, and the investor sentiment was extraordinarily downbeat. Since then (as is typical in such circumstances), the market caught players on the wrong foot by rebounding more than 20% within the space of roughly three weeks.

In recent days, the bear market rally has run up against a wall of key technical resistance, which it has been unable to penetrate on the upside for several days now.

US equity market (S&P 500)



Sources: VP Bank, Bloomberg

As a result, support is waning: based on short-term indicators, the markets are no longer oversold but instead slightly overbought. The negative investor sentiment has improved markedly, with the record-high reading of bears at the beginning of March now having fallen to around 40%.

The financial markets have also benefited recently from the lack of new negative headlines. Among other things, this is attributable to the fact that the 2008 reporting season for major companies is now over. In the coming weeks, the first Q1 results will already be announced, and that in turn should then be accompanied by bad news and a series of negative surprises. Moreover, we are anticipating no positive impulse on the economic policy front in the next two weeks.

Tactical exploitation of volatility

We are assuming that the markets will correct in the coming days and weeks. However, the previous lows have the potential to offer solid support.

Thus in a tactical move, we are reducing the equity quota in our asset management (balanced portfolio) mandates by 4%. In order to accomplish that as quickly as possible, the reduction will be made through the sale of passive products in the European and American markets. At lower levels, we will reestablish a neutral position in equities.

The bottom line

This tactical reduction of the equity quota represents a short-term trading approach in today's highly volatile market atmosphere. Equally spoken, we are sticking by our medium-term (3-6 months) assessment. In other words, we still view the trend direction as being net neutral. Our macro scenario also remains unchanged. Thus for investors with a long-term orientation, there is no compelling need to act in this regard.