STOXX

# MONTHLY INDEX NEWS

February 2016


- **Performance: Top five STOXX Indices – Minimum Variance Portfolios cushion losses**
- **STOXX Europe 600 Index: UK and Germany at bottom in tough month**
- **Investment Outlook: Key developments to consider by Aureliano Gentilini, Head of Research, STOXX Ltd.**
- **Fact of the Month: Climate change could cost 20% of global GDP**
- **Index of the Month: STOXX Global Climate Change Leaders Index**

## Newsletter Overview



## Performance: Top 5 STOXX Indices – Minimum Variance Portfolios cushion losses

| **1-Mth Performance** (Jan. 2016) | |
|---|---|
| STOXX USA 900 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX | -0.09 % |
| STOXX GLOBAL BROAD INFRASTRUCTURE USD – TOTAL RETURN INDEX | -1.35 % |
| STOXX NORTH AMERICA 600 MINIMUM VARIANCE USD – TOTAL RETURN INDEX | -1.45 % |
| STOXX GLOBAL 1800 MINIMUM VARIANCE UNCONSTRAINED USD - TOTAL RETURN INDEX | -1.92 % |
| STOXX USA 900 MINIMUM VARIANCE USD – TOTAL RETURN INDEX | -1.99 % |

Source: STOXX Limited

| **1-Yr Performance** (YTD Jan. 29, 2016) | |
|---|---|
| STOXX EUROPE 600 MINIMUM VARIANCE UNCONSTRAINED – TOTAL RETURN INDEX | 8.52 % |
| STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX | 8.08 % |
| STOXX USA 900 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX | 4.93 % |
| STOXX JAPAN 600 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX | 4.73 % |
| STOXX JAPAN 600 MINIMUM VARIANCE USD – TOTAL RETURN INDEX | 4.07 % |

Source: STOXX Limited
(Top 5 STOXX Indices, performance as of Jan. 29, 2015; all performance figures are in USD whenever specified in the index name and in Euro in the remaining cases)

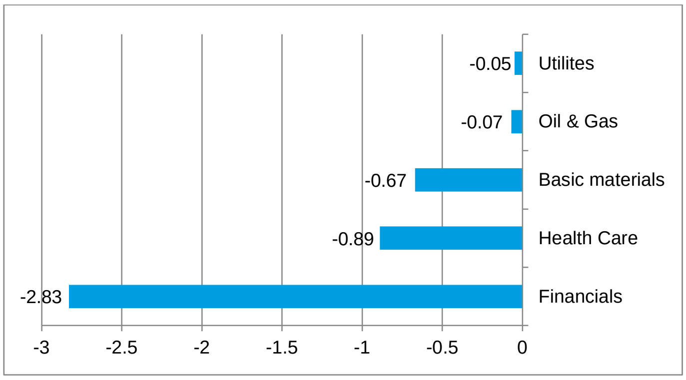
- Both emerging and developed markets ended January deeply in the red in the performance league table for the month.
- Oversupply and low-demand in the crude oil market (with spot prices hitting a USD30 floor), coupled with concerns about economic growth in China, prompted the worst stock market decline for an opening week of the year in history.
- Despite recording negative returns at the beginning of the year, the constrained and unconstrained versions of the STOXX Europe 600 Minimum Variance Index outperformed the STOXX Europe 600 benchmark by 758 basis points and 1,236 basis points for the one-year period ending Jan. 29.
- Similarly, the constrained and unconstrained versions of the STOXX USA 900 Minimum Variance Index outperformed the STOXX USA 900 benchmark by 336 basis points and 701 basis points for the one-year period ending Jan. 29.

## Comment by Aureliano Gentilini, Head of Research, STOXX Ltd.

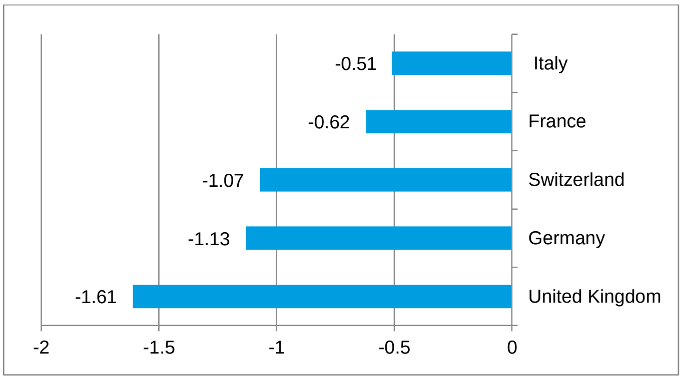
"In the current market context, where price dynamics are sensitive to information arrival linked to fundamentals, any-deterioration in the pace of corporate earnings could favor minimum-variance portfolios. This is because of a mean-reversion effect triggered by the overestimation of the earnings length trend. In fact, companies that are more profitable in a given reporting period will most probably lose their profitability, since, in most cases, success stories cannot last forever. Growth stocks in particular appear to be affected by this bias, since their market prices factor in expectations of long-term profitability."

"A secular trap of stagnation may become a self-fulfilling prophecy, should the market slowdown deepen further over a prolonged period of time. The current creeping deflationary pattern is bringing a number of challenges to central banks around fine-tuning a loosening monetary policy. Low real rates will be harder to achieve as deflation takes a firm grip on market expectations."

## STOXX Europe 600 Index: Domicile Country/Industry Sector Contribution




Source: STOXX Limited




Source: STOXX Limited

(Domicile country and industry sector contribution to STOXX EUROPE 600 Index in January; all performance figures in EUR)

- In performance-contribution terms, financials (-2.83%), health-care (-0.89%) and basic materials (-0.67%) contributed most to the downward trend of the STOXX Europe 600 Index for January (-6.36% in total-return terms).
- Deutsche Bank posted record losses of EUR6.8 billion as its revenue performance faltered in a near-zero interest-rate environment, exacerbated by the slump in oil prices and investors‘ worries about slowing growth in China.
- For the European benchmark, despite posting a negative return contribution, the oil & gas sector (-0.07%) – bettered by utilities (-0.05%) – were top performers.
- At a country level, the UK (-1.61%) and Germany (-1.13%) held the bottom spots in the performance-contribution league table for January, followed by Switzerland (-1.07%), France (-0.62%) and Italy (-0.51%). All countries – except the channel island of Jersey – were negatively contributing to monthly performance.

## Investment Outlook – Key Developments to Consider by Aureliano Gentilini, Head of Research, STOXX Ltd.

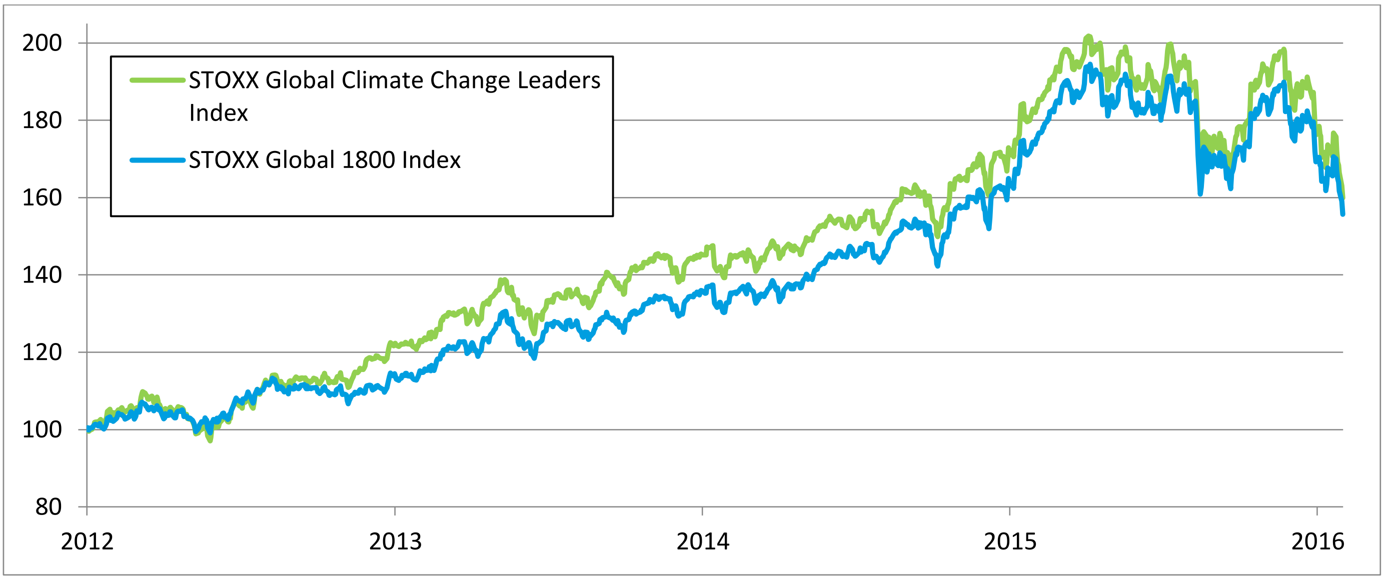
1. “With the current market situation, the three catalysts that can help stimulate margin profitability for the European banking sector – i.e. cutting costs, reductions in bad loans and rate hikes – will not materialize in the short term.”
2. “In the current market scenario, where corporate earnings announcements might disappoint analysts’ estimates, risk-conscious investors are better off allocating to minimum-variance portfolios.”
3. “Investors globally are starting to question whether central banks’ monetary policies can effectively contribute to getting growth and inflation on a sustainable footing.”
4. “Sector allocation strategies – along with being driven by economic cycle-related factors and fundamentals – will remain sensitive to information arrival linked to fundamentals, with an obvious deterioration in the pace of corporate earnings expectations as we advance in the 2016 reporting season. Prices will continue to reflect “buy the rumors and sell the news” patterns, triggered by earnings-surprise/earnings-disappointment factors, bottom-fishing strategies and speculations about M&A potential targets.”
5. “The 2016 winter edition of the European Commission’s forecast released at the beginning of February highlighted worsening economic conditions in the Eurozone since the autumn projections. In light of lower growth prospects in emerging markets, the slowdown of the Chinese economy and the nosedive of crude oil prices, economic growth in the Eurozone was revised to 1.7% for 2016, down from the previous projection at 1.8%. For 2017, the commission maintained its economic forecast of 1.9% growth, rising to 2.0% for 2018. The winter forecast also pointed to potential threats to the EU’s growth prospects arising from political instability in the PIGS countries (Portugal, Italy, Greece and Spain).”

## Fact of the Month:

**Climate change could cost 20% of global GDP**

According to a recent report from the UNEP Finance Initiative and reinsurer Swiss Re, climate change could cost the world 20% of global GDP by the end of this century. After the landmark agreement at the recent United Nations Climate Change Conference, investors are more aware than ever of the financial costs of climate-related risks, seeking ways to mitigate these costs while unlocking the potential of investments in renewable energy and the low-carbon economy.
For more information visit **www.stoxx.com/pulseonline**

## Index of the Month – STOXX Global Climate Change Leaders Index




Source: STOXX Limited

(4-year performance of STOXX Global Climate Change Leaders Index and STOXX Global 1800 Index as of Feb. 10, 2016; performance figures are in EUR, gross return)

- The STOXX Global Climate Change Leaders Index is based on the CDP "A list" database, previously known as the Climate Performance Leadership list. This list was originally produced at the request of almost 800 investors who represent more than a third of the world's invested capital. The concept includes carbon leaders who are publicly committed to reducing their carbon footprint.
- The STOXX Climate Change Leaders Index is the first index available to market participants that tracks the CDP "A list", offering a fully transparent and tailored solution to address long-term climate risk, while participating in the sustainable growth of a low-carbon economy.
- The index has a global view with similar geographical divisions to the STOXX Global 1800 Index. At an industry level, it is well-diversified over all sectors, though companies in the high-emitting sectors, such as energy, basic materials and industrials, are under represented due to heavy carbon use. The index is price weighted based on the free-float market cap multiplied by the corresponding Z-score carbon intensity factor of each constituent.
- The STOXX Global Climate Change Leaders index gained 14.97% annualized over the past four years, outperforming the STOXX Global 1800 Index which gained 13.90%, while having similar risk characteristics. The carbon footprint was reduced by more than 70% – showing that companies with a strong governance on climate change can be beneficial for returns.

**Further information:** https://www.stoxx.com/research

## Meet us

- EDHEC – Risk Europe, London, UK, Mar. 15-16
- CMSF (Conference of Major Superannuation Funds), Adelaide, Australia, Mar. 16-18

**P: +41 58 399 5300**
**stoxx@stoxx.com**