STOXX

MONTHLY INDEX NEWS

January 2016

- **Performance: Top five STOXX Indices – Minimum Variance Portfolios pay off**
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- **Index of the Month: iSTOXX® Europe Demography 50 Index**

Newsletter Overview

Performance: Top 5 STOXX Indices – Minimum Variance Portfolios pay off

1-Mth Performance (Dec. 2015)	
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	10.12%
STOXX AUSTRALIA TOTAL MARKET USD – TOTAL RETURN INDEX	3.18 %
STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	2.96 %
STOXX JAPAN 600 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX	2.43 %
STOXX ASIA/PACIFIC 600 EX JAPAN USD – TOTAL RETURN INDEX	2.23 %

Source: STOXX Limited

1-Yr Performance (YTD Dec. 31, 2015)	
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	32.02 %
STOXX EUROPE 600 MINIMUM VARIANCE UNCONSTRAINED – TOTAL RETURN INDEX	22.53 %
STOXX EUROPE 600 MINIMUM VARIANCE – TOTAL RETURN INDEX	18.45 %
STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	17.27 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	16.84 %

Source: STOXX Limited
(Top 5 STOXX Indices, performance as of Dec. 31, 2015; all performance figures are in USD whenever specified in the index name and in Euro in the remaining cases)

- The above numbers refer to data from December 2015, prior to the turmoil in the global stock markets, caused by the massive losses at the Shanghai Composite, due to the devaluation of the renminbi and weak economic figures at the beginning of 2016.
- For December 2015 the STOXX China A Total Market Index rose 2.96%, while the STOXX China B Total Market Index returned a higher 10.12%. Following the massive losses at the Shanghai Composite (-16.66%), the STOXX China A Total Market Index dropped by 19.21% in the first two weeks of 2016 and the STOXX China B Total Market Index by 14.95%.
- In 2015 the STOXX China A Total Market Index rose a remarkable 17.27%, while the STOXX China B Total Market Index returned at a higher 32.02%.

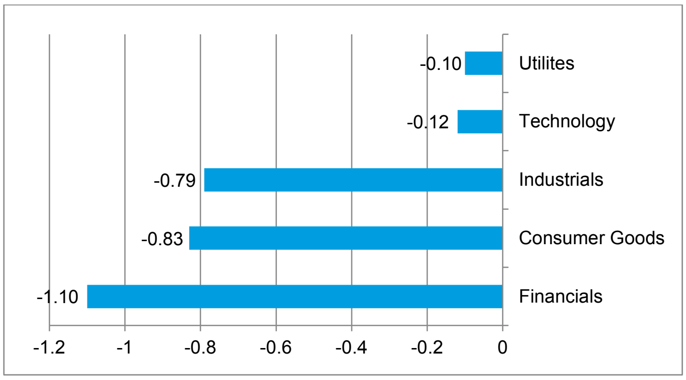
Comment by Aureliano Gentilini, Head of Research, STOXX Ltd.

“Risk-off drivers and volatility patterns triggered by information flow and geopolitical tensions weigh on portfolio allocation decisions. Low-risk-based investing may reward risk-conscious investors throughout 2016. Also, buying on dips may give opportunities to lock in profits, with a view to the long-term investment horizon.”

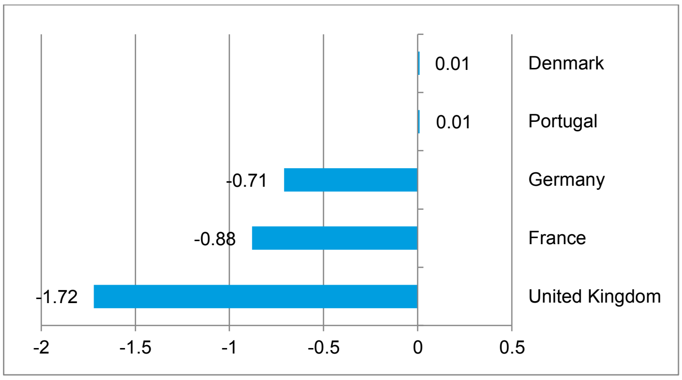
“In the current market context, where price dynamics are sensitive to information arrival linked to fundamentals, any deterioration in the pace of corporate earnings may favour minimum-variance portfolios because of a mean-reversion effect triggered by an overestimation of the length of the earnings trend.”

“A progressive single-currency depreciation, which was expected to materialize as the monetary policy stance on the two sides of the Atlantic started to diverge, has paused. The prospect of US-dollar parity with the euro, which in turn could have resumed the investment appeal of euro-funded carry-trade strategies in higher-yielding currencies, has been put on hold. Investors have remained cautious as the depth of the ECB balance sheet’s expansion disappointed market participants.”

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 December; all performance figures in EUR)

- For the full year of 2015, consumer goods (+3.41%), health care (+2.09%) and financials (+1.71%) contributed the most to the performance of the STOXX Europe 600 Index (+10.16%). Conversely, basic materials (-0.48%) and oil & gas (-0.09%) diminished from the return of the European benchmark.
- At a country level, the UK (+2.74%), France (+1.95%), Switzerland (+1.48%) and Germany (+1.47%) held the top spots in the performance-contribution league table for 2015.
- In December, financials (-1.11%), consumer goods (-0.83%) and industrials (-0.79%) detracted most from the return of the STOXX Europe 600 Index (-5.01%). For the European benchmark, despite posting a negative return contribution, the technology sector (-0.12%), bettered by utilities (-0.10%), were the top performers.
- At a country level, the UK (-1.72%), France (-0.88%) and Germany (-0.71%) held the bottom spots in the performance-contribution league table for December. Portugal and Denmark (the two countries posted the same positive marginal performance-contribution reading of 0.01%) were the two countries that positively contributed most to monthly performance.

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

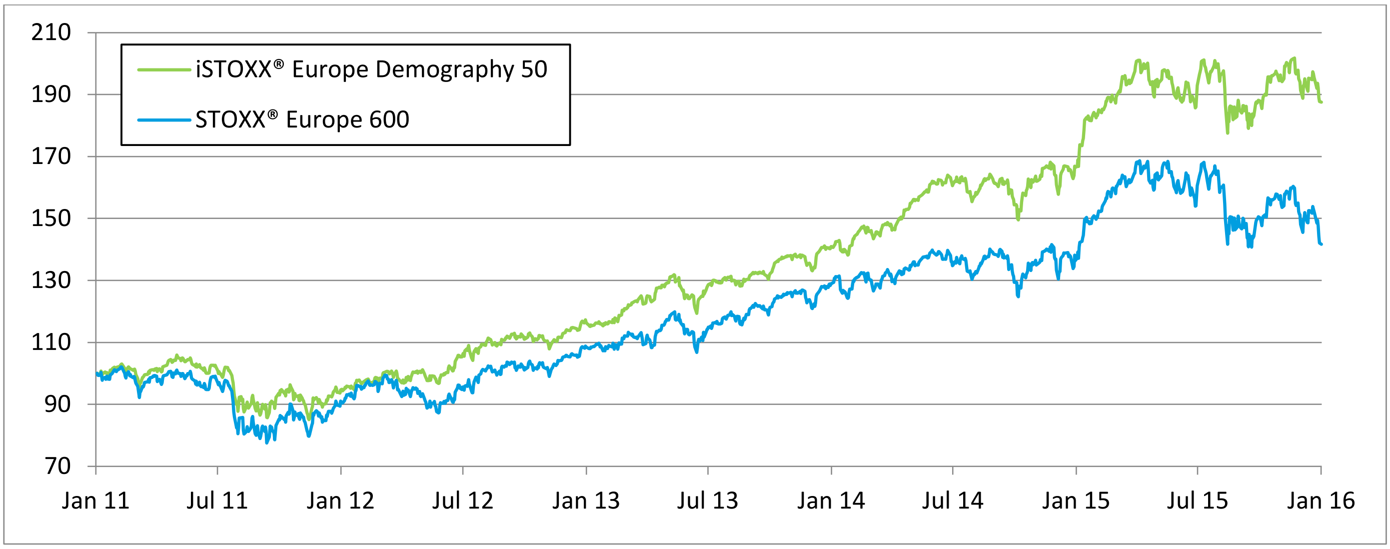
1. “Based on expectations for the new year, international investors should carefully manage currency exposure in 2016. The spectre of an “international currency war” – as originally defined by Brazil’s former finance minister, Guido Mantega – will continue to agitate FX markets in 2016.”
2. “The single-currency movement in FX markets remains strictly anchored to the ECB’s pledge to fend off a deflationary pattern in the Eurozone and any expansion in large-scale government bond purchases.”
3. “China’s economy adjustment to a “new normal” has provided evidence that a slower growth should be considered as a sign of a move to a more sustainable pattern, recognizing that a slowdown is necessary to meet China’s economic reforms and rebalance objectives. With this process, we anticipate that the Chinese export sector (as well as the real estate development sector on foreign currency-denominated debt) will not necessarily benefit from a renminbi competitive devaluation as long as input factors and commodities are paid in foreign currencies. On the flipside, imports will be impacted, with knock-on effects on western countries’ export capacity.”
4. “The European banking sector remains exposed to a number of threats, mainly attributable to a prolonged period of ultra-low rates and the level of outstanding nonperforming loans. A low-yield investment environment puts pressure on banks’ net interest margin, in turn hurting banks’ profitability and corporate earnings. As a result, in the hunt for yield, banks may show a higher propensity to mover further along the risk curve in order to counter decreased interest income.”
5. “As the renminbi started to depreciate at a higher pace at the beginning of 2016 with the People’s Bank of China (PBOC) intervention, higher volatility levels have followed. Those volatility patterns are expected to continue throughout 2016 aided by competitive currency devaluation that may be observed in the Asian region from China’s main trading partner. ”

Fact of the Month:

USD 24 trillion for low-carbon assets

The Paris Climate Conference (COP) concluded with the adoption of a momentous agreement between nearly 200 countries, clearly signalling that the world was ready to take a step in the right direction to manage climate change. Over recent decades, while governments have been debating the need to act, investors have mobilized to action resulting in some of the most powerful and transformational statements regarding climate change coming from the private sector. The Global Investor Statement on Climate Change of 2014 was signed by 409 investors in 40 countries, representing more than USD 24 trillion in assets under management. Their statement is backed with effective action. Investors around the world formed multiple platforms and launched 19 initiatives to transition to a low-carbon economy.
For more information visit **www.stoxx.com/pulseonline**

Index of the Month – iSTOXX® Europe Demography 50 Index



Source: STOXX Limited

(5-year performance of iSTOXX® Europe Demography 50 and STOXX® Europe 600 as of Jan. 12, 2016; performance figures are in EUR)

- For some time, recognition has been growing that demographic changes should be considered when designing investment products. Until now, too much of the focus has been on shifting priorities and the needs of new and ageing generations, and not enough on the other factors that influence how people spend money; disposable income being one of them.
- The iSTOXX® Europe Demography 50 Index is derived from the STOXX® Europe 600 Index, screening stocks to select those from sectors set to benefit from demographic changes. Similar to managed demography funds, healthcare and insurance companies feature prominently on the index, but allocations to utilities, industrials and real estate are also significant. Utilities are currently the second-highest weighted supersector at 22%.
- The iSTOXX® Europe Demography 50 Index showed an annualized return of 15.9% over five years compared to 11.5% of the STOXX® Europe 600 Index, while having a lower annualized volatility of 13.1% compared to 16.6% over the same period.
- Furthermore the dividend yield of the iSTOXX® Europe Demography 50 Index is 5.3%, while the STOXX® Europe 600 Index achieved 3.5% (in the last 12 months).

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

Meet us

- Inside ETFs, Hollywood, USA, Jan. 25-27
- Finanz ’16, Zurich, Switzerland, Feb. 03-04

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