

STOXX

MONTHLY INDEX NEWS

July 2015



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- **Investment Outlook: four key developments to consider, by Aureliano Gentilini, Head of Research, STOXX Ltd.**
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Performance: Top 5 STOXX Indices –China’s stock market crash

1-Mth Performance (June 2015)

STOXX AFRICA 90 USD – TOTAL RETURN INDEX	1.72 %
STOXX JAPAN 600 MINIMUM VARIANCE USD – TOTAL RETURN INDEX	1.17 %
STOXX LATIN AMERICA TOTAL MARKET USD – TOTAL RETURN INDEX	0.83 %
STOXX JAPAN 600 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX	0.59 %
STOXX INDIA TOTAL MARKET USD – TOTAL RETURN INDEX	0.17 %

Source: STOXX Limited

1-Yr Performance (YTD Jun. 30, 2015)

STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	119.30 %
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	75.30 %
STOXX CHINA TOTAL MARKET USD – TOTAL RETURN INDEX	27.33 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	21.76 %
STOXX EUROPE 600 MINIMUM VARIANCE UNCONSTRAINED – TOTAL RETURN INDEX	18.08 %

Source: STOXX Limited

(Top 5 STOXX indices, performance as of Jun. 30, 2015; all performance figures are in USD whenever specified in the index name, in Euro in the remaining cases)

- The Greek drama was reflected by global markets in June with volatility clustering patterns sending stock markets into the red at the end of the month.
- STOXX China A Total Market Index dropped 8.12% in June in US dollar terms. Nonetheless, it recorded a stellar +119.30% performance for the one-year period ending Jun. 30. According to data compiled by Bloomberg, companies with a primary listing in China were valued at USD10.05 trillion at mid-June, an increase of USD6.7 trillion in 12 months. That valuation marked the largest growth recorded by a stock market in a 12-month period.

Comment by Dr. Jan-Carl Plagge, Director Market Development, STOXX Ltd.

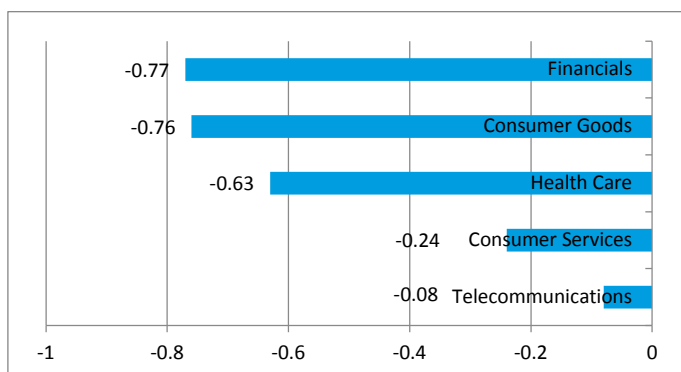
“In today’s interconnected world, economies are no longer isolated. Crises that originate in foreign markets extend their reach to markets far beyond the immediate regional proximity. A parameter that substantially influences the strength and effect that foreign crises have on local economies depends, among other factors, on companies’ revenue exposure to the Eurozone, the more affected its valuation should be by events occurring in the Eurozone.”

“With a focus on the regional source of revenue generation, STOXX recently developed and launched a new family of indices called STOXX True Exposure or STOXX TRU. In order to qualify for index inclusion, companies do not only need to be incorporated in targeted regions, but, in addition, also need to generate a predefined minimum

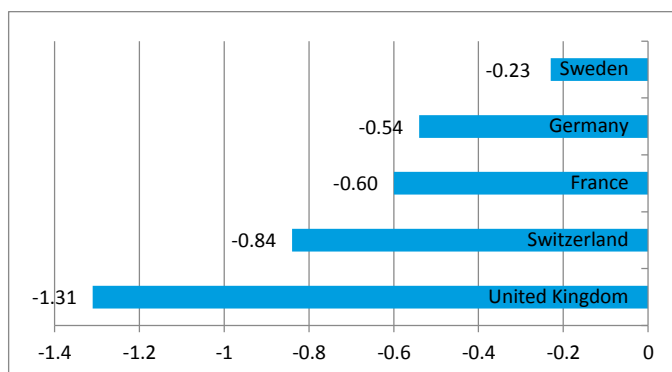
share of revenue in respective markets. STOXX TRU Indices are available with minimum exposure levels ranging from 25% up to the truly exposed 100%.”

“The higher the revenue exposure of US based companies to the Eurozone, the higher their drawdown in the context of the recent inflammation of the European debt crisis. STOXX TRU USA indices are found to be more immunized towards these events. The level of immunization is hereby found to depend on the required level of local revenue exposure.”

STOXX Europe 600 Index: Domicile Country/Industry Sector Contribution – Concerns about Greece’s debt problems take their toll (June)



Source: STOXX Limited



Source: STOXX Limited

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

- The STOXX Europe 600 Index declined -4.45% in June. At Jun. 30 close, the index was 7.91% below the all-time high of 414.06 it reached on April 15.
- In performance attribution terms, the negative return of the STOXX Europe 600 was mostly attributable to Financials and Consumer Goods. Although all sectors detracted in June, the Telecommunications sector and Consumer Services performed well.
- At a country level, the UK detracted the most from the performance contribution league table. Concerns about Greece’s debt problems and weak mining stocks took their toll, weighing on market sentiment at the end of the month after retail and consumer goods stocks performed strongly during the first three weeks.
- Switzerland, another non-Euro country, ranked as the second largest relative detractor from monthly performance.

Investment Outlook – 4 Key Developments To Consider, By Aureliano Gentilini, Head of Research, STOXX Ltd.

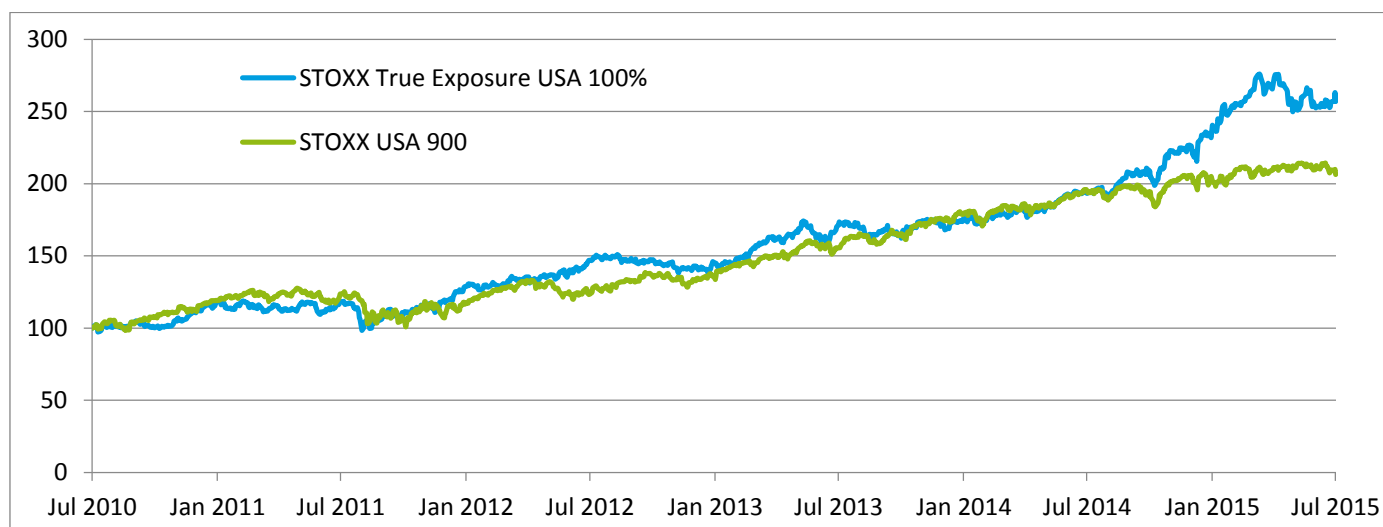
1. “Monetary policy decisions in the “Goldilocks” economy will capture investors’ attention in coming months. Risk-off drivers and volatility patterns triggered by contagion risks and information flows are expected to weigh on portfolio allocation decisions in the short run. Once again, the current and expected scenarios appear to favour allocations to minimum-variance portfolios, with a view to a longer-term investment horizon.”
2. “After posting a contraction in the first quarter, the US economy is on track to grow between 1.8% and 2.0% in 2015. Following the recent Fed statement at its June meeting, we expect the pace of a US tightening cycle later in 2015 to be gradual rather than aggressive. Nonetheless, the initial market reaction to a hawkish Fed will be negative.”
3. “Emerging markets are expected to suffer from capital outflows tracking an interest rate rise in the US. Also, in the context of faltering economic growth in emerging markets and rising interest rates in the US, redemptions of US dollar-denominated debt – projected to be over USD400 billion for the 2015-2016 period – make emerging-market corporates vulnerable to financial woes.”
4. “A depreciating yen poses stability risks in the Asia/Pacific region. On the other hand, a strengthening US dollar, coupled with GDP growth fears, drags down earnings expectations of US corporates.”

Fact of the Month:

Discussion on Grexit drives trading in derivatives based on STOXX indices to record highs

In June, 83.9mn contracts based on STOXX indices have been traded, marking a new record in traded contracts based on STOXX index options and futures. According to data from EUREX and World Federation of Exchanges (WFE), STOXX indices reached a market share of 12.9 per cent in overall derivatives trading. Presumably, the Greek crisis drove the trading in the STOXX indices with its popular benchmarks for the European market far beyond the monthly average of 51.1mn traded contracts achieved in 2014. This new high surpassed even the 75mn contracts traded in derivatives on STOXX indices in October 2014.

Index of the Month – STOXX True Exposure USA 100% Index



Source: STOXX Limited

(5-year performance of STOXX True Exposure USA 100% and STOXX USA 900 as of Jul. 8, 2015; all performance figures are indexed and in USD)

- Traditional equity indices bundle companies based on their country of domicile and primary listing, regardless of where the selected companies generate their revenue. Without this consideration, indices covering different countries or regions may have substantial revenue overlaps among each other. In a portfolio context, revenue overlaps among portfolio constituents increase correlations between indices. STOXX True Exposure Indices take into account each company's revenue exposure to single countries in the selection process and focus on companies that generate all or a significant portion of their revenue in targeted countries or regions.
- The STOXX True Exposure USA 100% consists of companies that generate their revenue only in the U.S. The components are weighted to free-float market cap and a minimum liquidity is required.
- The index outperformed the STOXX USA 900 by 1,759 bps over five years. With a year-to-date volatility of 10.7%, the index is suitable for risk-averse investors.
- Due to 100.00% revenue exposure from the U.S. the index offers significantly lower correlations to other regions or countries. While the STOXX USA 900 has a correlation of more than 0.60 with the STOXX Europe 600 Index. With about 0.50 of correlations, the STOXX True Exposure USA 100% is less susceptible to European crises like the Greek debt crisis, for example.

Further information: stox.com/tru

Meet us

- Public Funds Summit, Newport, USA, 20-22 July
- STOXX Lunch Roundtable, Sydney, Australia, 26 Aug
- Morningstar ETF Conference, Chicago, USA, 29 Sep-1 Oct

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