STOXX

MONTHLY INDEX NEWS

November 2015

- **Performance: Top five STOXX Indices – Potential of US interest rate hike drives European market**
- **STOXX Europe 600 Index: UK contributes strongly to market gains**
- **Investment Outlook: Five key developments to consider, by Aureliano Gentilini, Head of Research, STOXX Ltd.**
- **Fact of the Month: The Transformation of Europe's Money Markets**
- **Index of the Month: STOXX GC Pooling EUR Deferred Funding Rate**

Newsletter Overview

- **Top 5 STOXX Indices**
- **Comment by Aureliano Gentilini**
- **Country and Sector Impact on STOXX Europe 600**
- **Investment Outlook**
- **Fact of the Month**
- **Index of the Month**
- **Meet Us**

Performance: Top 5 STOXX Indices – Potential of US interest rate hike drives European market

1-Mth Performance (Oct. 2015)	
STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	14.16 %
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	13.19 %
EURO STOXX 50 – TOTAL RETURN INDEX	10.37 %
STOXX JAPAN 600 USD – TOTAL RETURN INDEX	9.61 %
STOXX CHINA TOTAL MARKET USD – TOTAL RETURN INDEX	9.26 %

Source: STOXX Limited

1-Yr Performance (YTD Oct. 30, 2015)	
STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	37.42 %
STOXX EUROPE 600 MINIMUM VARIANCE UNCONSTRAINED – TOTAL RETURN INDEX	23.95 %
STOXX EUROPE 600 MINIMUM VARIANCE – TOTAL RETURN INDEX	22.66 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	21.21 %
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	20.21 %

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

- Markets and monetary authorities on both sides of the Atlantic remain highly sensitive to macro-side information arrival over the final two months of the year. The “waiting for Godot” story might come to an end at the Federal Open Market Committee policy meeting in December; with the latest monetary policy statement raising the potential of a rate increase.
- The ECB is expected to ramp up its stimulus measures as early as December, since data is supporting the evidence that it is taking longer than previously anticipated to return to price stability. Consumer prices in the 19-country Eurozone are estimated to stay flat compared to last year for October, 2015, posting a marginal rebound from a negative 0.1% for September.
- The positive 10.37% total return for October posted by the EURO STOXX 50 was in direct contrast to the negative 9.18% performance recorded for the third quarter.
- China rallied again after the People’s Bank of China reacted with cuts in several interest rates to stem the slowing economic growth, coupled with heightened deflation risks.

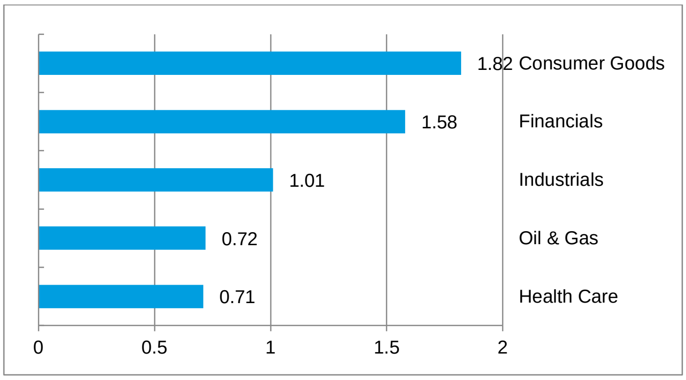
Comment by Aureliano Gentilini, Head of Research, STOXX Ltd.

“The direction of financial markets remains anchored to expectations about central banks’ changes in stance for monetary policy across two key regions: the US and the Eurozone. In turn, more than ever, monetary policy stances will be strictly dependent upon the arrival of macro information. The US employment situation for October for example, with total nonfarm payroll employment increasing by 271,000 over the month, reinforced expectations about a December interest rate rise.”

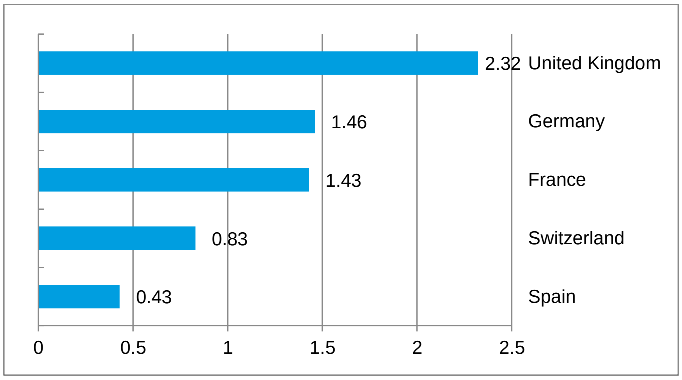
“The ultra-loose monetary policy of central banks continues to create distortions in the fixed income market. In the current interest rate scenario, institutional investors’ level of risk aversion and traditional risk management models appear to factor in a misperception of risk.”

“The divergence in monetary policy stance on the two sides of the Atlantic that is expected to materialize in December will lead to single-currency depreciation. Goldman Sachs’ longstanding call for US-dollar parity with the euro may come true before year-end.”

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 October; all performance figures in EUR)

- At the Oct. 30 market close, the STOXX Europe 600 was 9.32% below the all-time high of 414.06 posted on Apr. 15, almost cancelling out the negative 8.39% performance for third quarter.
- In performance attribution terms, the positive return of the STOXX Europe 600 Index for October (+8.09% in total return terms) was mostly sustained by consumer goods (+1.82%) and financials (+1.58%). Also for the European benchmark, the utility (+0.31%) sector, bettered by telecommunications (+0.38%) and technology (+0.38%) was the bottom performer.
- At the country level, the UK (+2.32%) held the top spot in the performance contribution league table for October. Germany (+1.46%) and France (+1.43%) were the runners up for the month.
- The British economy posted a lower-than-expected 0.5% GDP growth for the third quarter, compared with a 0.7% for the previous quarter. This may give the Bank of England pause for thought about the start of a tightening cycle.

Investment Outlook – 5 Key Developments to Consider, by Aureliano Gentilini, Head of Research, STOXX Ltd.

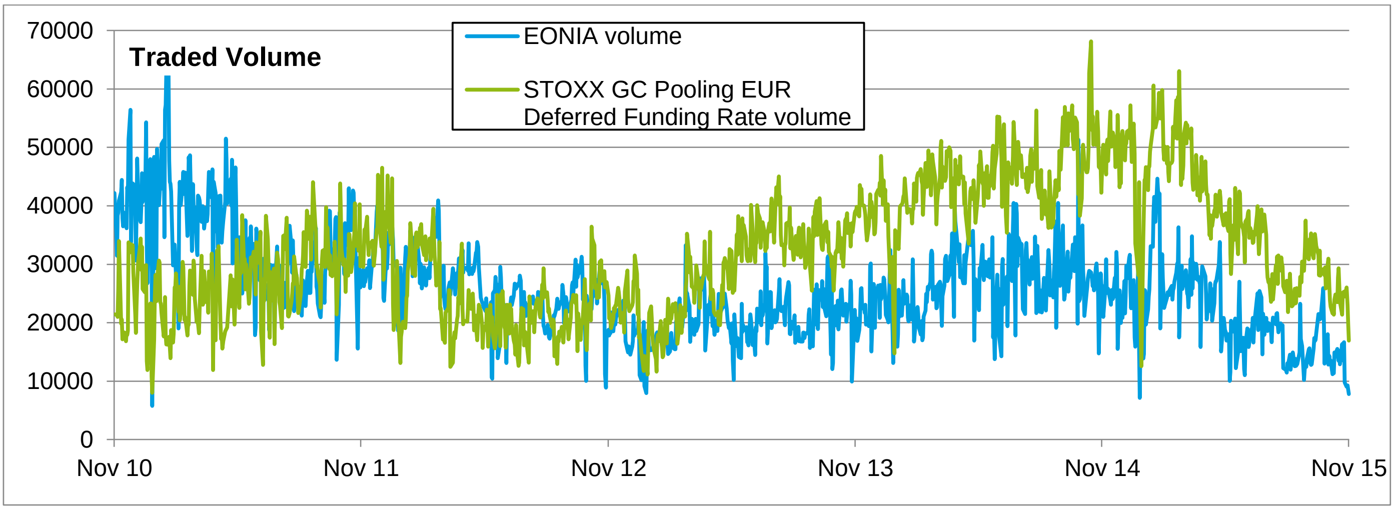
1. "Markets are still far away from the equilibrium around the 'natural interest rate'. As government bond yields grip the entire term structure, the hunt for yield can break the traditional risk-aversion thresholds for more conservative categories of investors."
2. "In spite of portfolio substitution effects, which may bring undesired consequences of concentration in several industry sectors or exposure to low-quality companies, a disciplined equity income strategy weighting sustainable dividend growth could be part of asset allocation strategies of long-term investors."
3. "Despite recently suffering from China-driven market turmoil in the Asian region and capital outflows-induced effects arising from expectations of the start of a tightening cycle by the US Fed, the Association of Southeast Asian Nations (ASEAN) continues to offer interesting investment perspectives."
4. "In a context of continuing demographic change, replacement ratios are key, and careful liability-driven management should guide pension plans' asset allocation modelling."
5. "In the future, we may observe new developments in the catastrophe-bonds market that offer a liquid and investable instrument to hedge against pension fund-related specific sources of risk that are due to demographic factors."

Fact of the Month:

The Transformation of Europe's Money Markets

The ECB put its weight behind the STOXX indices when it announced in September that STOXX EUR GC Pooling indices would become the secured market rates with regards to fixed-term deposits in euro. Launched in 2013, the STOXX® GC Pooling index family is based on the Eurex Repo GC Pooling segment and offers a transparent, rule-based, independent alternative to unsecured interbank benchmarks such as LIBOR and EURIBOR/EONIA. The indices represent secured euro lending transactions and binding quotations that take place on the Eurex Repo GC Pooling Market.

Index of the Month – STOXX GC Pooling EUR Deferred Funding Rate



Source: STOXX Limited and the European Banking Federation

(5-year volume of Euro OverNight Index Average Volume and STOXX GC Pooling EUR Deferred Funding Rate Volume as of Nov. 5, 2015; volume figures are in Millions of EUR)

- The STOXX GC Pooling EUR Deferred Funding Rate was designed as an alternative and complement to the unsecured interbank lending benchmark EONIA. Representing the actual secured euro lending transactions for HQLA assets it benefits the market with an independent, transparent and rule-based interbank funding index. The performance of the STOXX GC Pooling EUR Deferred Funding Rate is almost identical with the EONIA.
- The index establishes the volume weighted average interbank repo rate based on open order book EUR OverNight, TomNext and SpotNext transactions in the GC Pooling ECB basket and ECB Extended basket with the same value date.
- Today the STOXX GC Pooling EUR Deferred Funding Rate is the first choice in the pan-European interbank repo market and demonstrates the shift from the unsecured towards the secured money market funding following the financial crisis.
- Eurex Exchange has introduced a cash-settled EUR Secured Funding Future based on the STOXX GC Pooling EUR Deferred Funding Rate. The future allows outright hedging of European repo rates. This approach has been validated by the European Central Bank (ECB), announcing that it will use the STOXX GC Pooling Indices as the new euro secured benchmark rate.
- The STOXX GC Pooling indices reflect real market data as they are based on the Eurex Repo GC Pooling Market. This market is a regulated, anonymous and centrally cleared marketplace. The average daily outstanding volume has increased since 2007 from less than 20 billion euros to more than 150 billion euros in 2015.

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

Meet us

- Fiduciary Investors Symposium, Yarra Glen, Australia, Nov. 16-18
- Strategic Beta Summit, Berlin, Germany, Nov. 25-26
- Global Indexing ETFs, Scottsdale (AZ), USA, Dec. 6-8

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