

STOXX

MONTHLY INDEX NEWS

September 2015



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Performance: Top 5 STOXX Indices – Volatility top-performer

1-Mth Performance (Aug. 2015)

VSTOXX VOLATILITY INDEX – PRICE INDEX	61.07 %
EURO STOXX REAL ESTATE INVESTMENT & SERVICES USD – PRICE INDEX	2.82 %
EURO STOXX TOTAL MARKET REITs USD – PRICE INDEX	-2.60 %
STOXX JAPAN 600 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX	-2.93 %
STOXX US 900 MINIMUM VARIANCE UNCONSTRAINED USD – TOTAL RETURN INDEX	-3.48 %

Source: STOXX Limited

1-Yr Performance (YTD Aug. 31, 2015)

STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	43.90 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	19.73 %
STOXX EUROPE 600 MINIMUM VARIANCE – TOTAL RETURN INDEX	18.02 %
STOXX EUROPE 600 MINIMUM VARIANCE UNCONSTRAINED – TOTAL RETURN INDEX	17.64 %
STOXX EUROPE SMALL 200 – TOTAL RETURN INDEX	15.34 %

Source: STOXX Limited

(Top 5 STOXX indices, performance as of Aug. 31, 2015; all performance figures are in USD whenever specified in the index name, in Euro in the remaining cases)

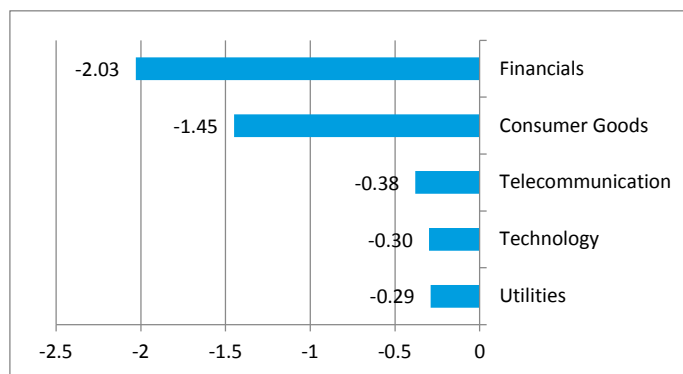
- Implied volatility in stock markets on both sides of the Atlantic, as measured by the CBOE VIX and the VSTOXX, edged higher in August, with intraday volatility spiking in the second half of the month. The VSTOXX continued to trade at a premium to the VIX. Implied volatility spiked to a 46-months record high on Aug. 24 and declined thereafter. On Aug. 24 the VSTOXX stood at 40.80 from July's close at 12.12. Implied volatility edged downward thereafter, closing on Sept. 1 at 34.26.
- Risk-on-risk-off and flight-to-quality drivers, along with volatility patterns triggered by contagion risks and information flows, will continue to factor in portfolio allocation decisions in the short term. Once again, the current and expected scenarios still favour allocations to minimum-variance portfolios, with a view to a longer-term investment horizon. Outperformance of the STOXX Europe 600 Minimum Variance Indices, for both the Constrained and Unconstrained versions, against the European benchmark stood at 634 bps and 596 bps, respectively for the one-year period ending Aug. 31.

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

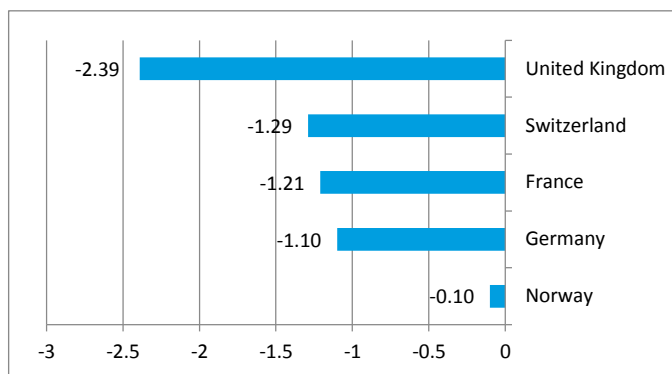
"Market participants continued to focus on the potential impact that a declining Chinese market might have on the global economy. Activity in China's factory sector in August contracted at its fastest pace of the last three years as domestic and export orders collapsed. The next question is about whether China's economy is heading toward a hard landing."

"Heading into the fourth quarter, monetary policy decisions at the Fed's September meeting will test market resilience. At the same time, implications arising from PBOC's devaluation of the Yuan will be closely watched and are expected to remain on investor's radar. Also, third quarter earnings season, which will start in mid-October will be a critical test to assess the strength of corporate America."

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 August; all performance figures in EUR)

- The STOXX Europe 600 Index dropped -8.22% in August. At Aug. 31 market close the index was 12.38% below the all-time high of 414.06 it reached on Apr. 15.
- Despite erosion from May's reading, the wide European benchmark returned a healthy +8.74% total return for the year to date as of Aug. 31 close.
- In performance attribution terms, negative return of the STOXX Europe 600 Index for August was mostly attributable to Financials and Consumer Goods. Although, detracting from the monthly return of the index, the Technology sector was bettered by Utilities as top performer.
- At country level, UK detracted the most from the performance contribution league table of the index with Switzerland ranking 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. "The People's Bank of China's (PBOC) devaluation of the Yuan triggered market expectations of further depreciation of the currency in order to sustain the export sector. At the same time, the unexpected devaluation of the Yuan raised the prospect of subdued commodity price dynamics."
2. "Volatility in the sovereign bond market was observed in August, as the fixed income segment remained sensitive to information arrival and flight-to-quality drivers."
3. "Apart from short-lived flight-to-quality drivers, the end of the bond super-cycle might be around the corner, driven by the unwinding of emerging market FX reserves, which in the last few years flooded the government bond market of low-risk countries."
4. "Deutsche Bank estimates that the era of central bank reserve accumulation is coming to an end. Deutsche Bank forecasts that by the end of next year central banks will sell as much as USD1.5 trillion to offset capital outflows. In turn, due to anticipated selling pressure on the US Treasuries market, the Federal Reserve might delay the decision to remove its monetary policy accommodation."

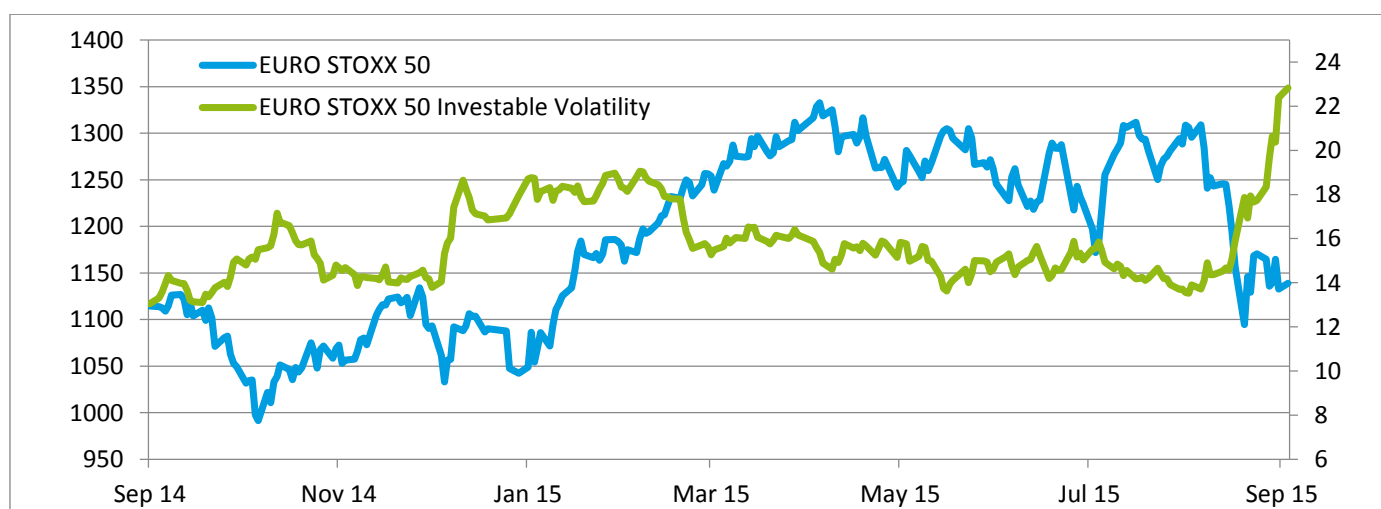
Fact of the Month:

Asian ETP market – Dynamic Growth

ETP volume in Asia has tripled over the last five years and the number of ETPs has more than doubled to 792 products. Asia has just eight percent of the worldwide assets under management in ETPs, but the number of products is growing fastest*. STOXX is part of this growth. In 2015 this was supported by STOXX co-operating with The Korea Exchange (KRX) and the Mitsubishi UFJ Trust and Banking Corp. (MUTB) in developing new index products. In addition, license agreements for STOXX indices with seven Asian product providers were made in the past year. Overall STOXX is growing its footprint in Asia dynamically with nine exchange-traded products based on STOXX indices.

(*Source: BlackRock, July 2015)

Index of the Month – EURO STOXX 50 Investable Volatility



Source: STOXX Limited

(1-year performance of EURO STOXX 50 Investable Volatility and EURO STOXX 50 as of Sept. 8, 2015; performance figures of EURO STOXX 50 are in EUR)

- The EURO STOXX 50 Investable Volatility Index measures forward implied volatility in the Eurozone equity market. It is a rolling index that aims to capture a consistent three-month forward volatility exposure based on the implied volatility of EURO STOXX 50 Index options available on the international derivatives exchange Eurex.
- Equity market volatility has consistently demonstrated a high degree of negative correlation with equity returns, particularly when equity markets are falling. An allocation to volatility as an asset class can therefore provide investors with diversification benefits when they need it most. The EURO STOXX 50 Investable Volatility Index is well-suited for use in exchange traded and other index products and allows investors to easily and cost-effectively access this diversification and tail risk protection.
- Example: Since the unexpected devaluation of the Yuan on Aug. 11, the EURO STOXX 50 Index dropped by -14.8% until Sept. 8. On the contrary, the EURO STOXX 50 Investable Volatility Index tracked the market fluctuations around the devaluation and rose by +66.5%.
- Investors should consider the mean-reversion effect. Investments in volatility are only suitable for tactical instruments as the performance tends to revert to an average value over the long run.

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

Meet us

- Smart Beta: the 360° overview, Munich, Germany, Sept. 23-24
- Morningstar ETF Conference, Chicago, USA, Sept. 29-Oct. 1

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