

What's Happening In Global Stock Markets?

After the recent onslaught in the stock markets in May, the saying that one should "sell in May and go away" will now be etched more firmly in our minds. But did the macro environment warrant an outright sell and exit from stock markets? The answer is no. In fact, what is intriguing about this drop in global stock markets is that it occurred in the absence of a financial crisis and of any deterioration in the fundamentals of global economies. Its intensity and the widespread nature of the sell-off must have taken many by surprise.

The analysis so far points to inflationary fear in the US and the prospect of higher interest rates that have caused the sell-down in markets. This fear first set in after the Fed decision to raise rates on 10 May for the 16th time. Then a higher US April CPI number set off a chain reaction that saw a sell-down in risky sectors such as commodities and emerging market equities. No market was spared. Emerging Europe and Latin America were hardest hit with losses in excess of 20% on their market indices, measured from intra-month highs to their lows. Of the Asian markets, India fared the worst with a loss of 17%, measured from its intra-month high to its low.

So what can we expect, going forward from here. Clearly, investors are now more risk averse and the fear of higher inflation and growth slowing will continue to add volatility to markets. We think this volatility will continue for a while yet; but global economic fundamentals tell us that this is a correction and not a meltdown.

Global growth remains relatively strong and if inflationary pressures can be kept in check, we think global stock markets have some more steam left in them. In fact, global growth is now better balanced. Growth in Japan and Europe are improving and in Asia ex-Japan, growth remains strong.

The current breaks in the market have been painful but the corrections are healthy. Markets had risen too much too fast, especially for the commodities sector. Valuations of markets are now more attractive, providing buying opportunities for equities. But one should not go over-board; selectivity and a defensive stance should be the preferred route. On a technical viewpoint, we feel markets are nearing good supports. These should hold and we expect some basing actions before we see markets resuming their uptrend.

For PMA, we have weathered the market turmoil relatively well. And our saving graces have been staying defensive and holding a buffer of cash. We remain cautiously optimistic of equity markets and are looking out for opportunities to capitalize on the healthy growth that still abounds, particularly in the Asia Pacific region.