

**From:** "Pil, Anton C" <[REDACTED]>

**To:** "Pil, Anton C" <[REDACTED]>

**Subject:** GIO Market Alert - March 2015

**Date:** Fri, 13 Mar 2015 14:08:25 +0000

**Attachments:** GIO\_Market\_Alert\_-\_March\_2015.pdf

**Inline-Images:** image001.png

---

 0313-0217 GIO banner for word & email.jpg

## GIO Market Alert

March 2015

Increasingly the market appears to be coming around to our view that not only is the Fed likely to hike in 2015 but the timing of that hike is likely to be in the next 3-6 months (i.e. June or September). While we view this as a positive sign and affirmation that the US economy is solidly expanding, equity markets can be choppy in the months around the beginning of a tightening cycle as markets digest the news. Looking back 30 years, the S&P 500 has typically been range bound in the months before the first Fed hike with peak-to-trough drawdowns ranging from 5-10%. Furthermore, our views on continued US dollar strength and oil weakness as it retests recent lows could drive additional concerns on corporate earnings. With this in mind, we think it is prudent to take profits on some of our US equity exposure which has done well over the last 3 years to take down risk in the US. We will look for the right opportunity to reinvest this dry powder when market volatility increases.

### WHERE TO TAKE PROFITS

#### **Large Cap Outperformers**

There are many companies that have outperformed in the last 6-9 months and as a result now have a smaller valuation cushion. We would take profits on those outperformers, particularly those up over 10% in 2015 in the large cap technology and pharma sectors that lack catalysts in the next 3-6 months. We expect to buy them back on a ~10% pullback.

#### **Payments Innovation**

Since the announcement of Apple Pay in September 2014, the stocks we highlighted as beneficiaries of mobile payments innovation are up 14% due to strong results and underlying trends. While we still like many of the companies longer term, the credit card networks and NFC chip makers may become more volatile in the near term.

#### **Life Sciences**

Last year we highlighted an opportunity in Life Sciences, particularly those focusing on genetic testing. While we still like some companies longer term, we believe the primary catalyst around reduced sequencing costs has played out in the near term and are taking profits on the stock basket up 12% since inception in February 2014 with some individual stocks up over 30%. For clients interested in maintaining exposure to the theme, we would focus on hardware manufacturers.

### WHAT WE'RE HOLDING ON TO

#### **Hedged European Equities and Short EUR**

With the ECB engaging in quantitative easing (QE) we think the pressure remains for euro to continue weakening and may last well below parity. We expect European equities to remain supported with investors following the US QE playbook. While European equities could experience some volatility, it could be tempered by continued investor flows.

#### **Hedged Japanese Equities**

Recent improvements in Japanese macro fundamentals keep us invested in Japanese equities. There may also be potential catalysts around an equity-geared increase in QE and flows benefits from continued shifts into equities by asset allocators following the GPIF's lead.

#### **US Banks**

While recognizing that US bank stocks will not be fully immune to market beta, as a sector bank valuations remain low in a historical context and capital returns to shareholders seem to be increasing following the recent CCAR (Comprehensive Capital Analysis and Review) results. Furthermore, the sector should broadly benefit from Fed hikes and as a result we would maintain exposure to this sector, especially to the regional banks, even through near term volatility.

Anton Pil

Jeanne Sun

Peter Epstein

Source: Bloomberg. As of March 2015.

#### IMPORTANT INFORMATION

The opinions and views expressed herein are those of GIO and may differ from those of Morgan, its affiliates or employees. This presentation and the material contained herein is not a product of the Morgan Research Department and is not a research report, although it may refer to a research report or research analyst. This presentation should be reviewed in conjunction with U.S. research published by Morgan Securities, LLC to the extent that such research exists. The opinions and ideas expressed herein do not take into account individual client circumstances, objectives and needs. Transactions in any securities that may be referenced herein may not be suitable for all investors.

This presentation has been prepared for information purposes only. Nothing in this material is intended to be a solicitation for any product or service offered by Morgan's Private Bank or any of its affiliates. Information contained herein has been obtained from sources believed to be reliable but we do not guarantee its accuracy or completeness and accept no responsibility for any direct or consequential losses arising from its use. The views and strategies described herein may not be suitable for all investors. This information is not intended as an offer or solicitation for the purchase or sale of any financial instrument and is being provided merely to illustrate a particular investment strategy.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in emerging markets can be more volatile.

This material contains certain information/statistics that have been obtained from sources deemed reliable, but Morgan Securities does not guarantee their accuracy or completeness.

Bank products and services are offered through JPMorgan Chase Bank, and its affiliates. Securities are offered by Morgan Securities LLC and Clearing and Custody by Morgan Clearing Corp., both are members of FINRA, NYSE and SIPC. Morgan Securities LLC and Morgan Clearing Corp are affiliates of JPMorgan Chase Bank.

JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties. Note that Morgan is not a licensed insurance provider.

The material contained herein is intended as a general market commentary. Opinions expressed herein are those of the Global Investment Opportunity office and may differ from those of other Morgan employees and affiliates. This information in no way constitutes Morgan research and should not be treated as such. Further, the views expressed herein may differ from that contained in Morgan research reports. The quotes/statistics referenced herein have been obtained from sources deemed to be reliable, but we do not guarantee their accuracy or completeness, any yield referenced is indicative and subject to change. The views described herein may not be suitable for all investors. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. JPMorgan Chase & Co. and its subsidiaries do not render accounting, legal or tax advice. You should consult with your independent advisors concerning such matters. Bank products and services offered by JP Morgan Chase Bank, and its affiliates. Securities are offered through Morgan Securities LLC, member NYSE, FINRA and SIPC, and its affiliates globally as local legislation permits.

In the United Kingdom, this material is approved by Morgan International Bank Limited (JPMIB) with the registered office located at 25 Bank Street, Canary Wharf, London E14 5JP, registered in England No. 03838766 and is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. In addition, this material may be distributed by: JPMorgan Chase Bank, Paris branch, which is regulated by the French banking authorities Autorité de Contrôle Prudentiel and Autorité des Marchés Financiers; JPMorgan Chase Bank, Bahrain branch, licensed as a conventional wholesale bank by the Central Bank of Bahrain (for professional clients only); JPMorgan Chase Bank, Dubai branch, regulated by the Dubai Financial Services Authority.

In Hong Kong, this material is distributed by JPMorgan Chase Bank, (JPMCB) Hong Kong branch except to recipients having an account at JPMCB Singapore branch and where this material relates to a Collective Investment Scheme in which case it is distributed by Morgan Securities (Asia Pacific) Limited (JPMSAPL). Both JPMCB Hong Kong branch and JPMSAPL are regulated by the Hong Kong Monetary Authority. In Singapore, this material is distributed by JPMCB Singapore branch except to recipients having an account at JPMCB Singapore branch and where this material relates to a Collective Investment Scheme (other than private funds such as a private equity and hedge funds) in which case it is distributed by Morgan (S.E.A.) Limited (JPMSEAL). Both JPMCB Singapore branch and JPMSEAL are regulated by the Monetary Authority of Singapore.

With respect to countries in Latin America, the distribution of this material may be restricted in certain jurisdictions. Receipt of this material does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. To the extent this content makes reference to a fund, the Fund may not be publicly offered in any Latin American country, without previous registration of such fund's securities in compliance with the laws of the corresponding jurisdiction. If you no longer wish to receive these communications please contact your Morgan representative.

Past performance is not a guarantee of future results.

This email is confidential and subject to important disclaimers and conditions including on offers for the purchase or sale of securities, accuracy and completeness of information, viruses, confidentiality, legal privilege, and legal entity disclaimers, available at [REDACTED]