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GIO
GLOBAL INVESTMENT OPPORTUNITIES

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 re-tests 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.

GIO Investments Strategy

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Source: Bloomberg. As of March 2015.

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