Monthly Newsletter
Savings and Investments
Acceleration at the end of the year

Market overview

Financial markets have ended a largely positive in November (except in some emerging market countries). This was thanks to substantially cheaper oil, persuasive US economic data, some positive signs in the euro zone, a good quarterly report period, especially in US, the willingness of central banks in Europe, Japan and China to stimulate their economies, and signs that US key interest rate hikes will be delayed for longer than previously expected.

Stock market performance*	Major events	Expectations
USA (S&P 500 index, USD): **+2,5%** in November **+11,9%** YTD **+88,7%** in 5 years **Europe** (MSCI EURO, EUR): **+4,6%** in November **+5,2%** YTD **+25,5%** in 5 years **Eastern Europe** (MSCI EM Eastern Europe, USD): **-7,8%** in November **-26,1%** YTD **-27,9%** in 5 years **Asia** (MSCI EM Asia, USD): **+0,2%** in November **+4,7%** YTD **+21,6%** in 5 years **Latin America** (MSCI EM Latin America, USD): **-4,7%** in November **-6,0%** YTD **-25,8%** in 5 years	• US GDP grew at an annualized rate of 3,9% in the Q3 according to revision (3,5% initial estimate); in November employment rose substantially more than expected; unemployment level remained at 6-year low (5,8%), stock market indexes hit new records. • Euro zone Q3 GDP figures averaged at 0.2% with growth engine Germany expanding its economy by only 0.1%; European Central Bank (ECB) will wait until early next year to decide whether further monetary stimulus will be needed. • People's Bank of China (PBoC) surprised markets by lowering its one-year lending rate. • Brazil's central bank was forced to raise interest rates by half a percentage point to 11,75% to control rising inflation – local stock market have experienced a heavy fall afterwards. • Russian economy is suffering as a result of the plunging oil price and the continued impact of US and European Union sanctions. • OPEC decision not to cut production in the face of increased global supply led to a sharp decline in oil price over the final days of November; oil prices declined around 40% since June.	US stock markets were fuelled by a super-strong official jobs report. Non-farm payrolls rose by 321 000 in November, which represents the strongest monthly jobs growth for 3 years. Together with other strong macroeconomic data, the monthly labor market figures show that the US economy is now standing firmly on its own feet. The latest Federal Reserve (Fed) meeting minutes revealed Fed's concern about the possibility that inflation will edge lower in the near term. This has led to speculation that the central bank might delay the first interest rate rise. However, stronger economic data led to renewed speculation over when the Fed would start to raise US interest rates. Current market expectations continue to suggest that the Fed will act in the third quarter of 2015, but the odds of an earlier move are increasing. Investors will watch closely for any signs of a change from the Fed when its interest rate setting board meets on 17 December. The ECB announced cuts to its growth forecasts for the euro zone economy over the next two years. It now expects growth of 0,8% this year and 1% in 2015, versus its June predictions for 0,9% and 1,6%. Inflation forecasts were also lowered, reflecting the continuing fall in oil prices. The ECB did not announce any new monetary stimulus programmes. However, sharply lower economic growth and inflation forecasts for the euro zone and a clear statement from ECB President M. Draghi that the bank will expand its balance sheet to EUR 3 trillion indicate that the ECB will expand its bond-buying programme from asset-backed securities to corporate and sovereign bonds early next year. In China, economic statistics continued to fall below expectations, persuading the PBoC to lower its one-year lending rate. This decision was a bit surprising, since earlier this year the PBoC was instead employing targeted measures such as lower reserve requirements and liquidity injections just for a limited selection of Chinese banks. This has boosted expectations of further monetary easing measures to come. SEB predicts another Chinese rate cut in early 2015. For many economies, the lower oil price is a bonus as it should lead to increase levels of consumer spending and economic growth. All else being equal, the current oil price decline should boost economic growth in OECD countries by some 0,5% over the next two years or so and also benefit many oil-importing emerging market countries. SEB's assessment is that the Brent crude oil prices will be somewhat higher a year from now than at this writing, but that they may very well fall before rebounding.

* More information regarding indexes' performance can be found at the end of the document

SEB

Monthly theme

Market timing

Investors always intend to earn money; therefore they try to guess what can happen in the future and how they can benefit from it. The act of attempting to predict the future direction of the market and trying to benefit from it is called market timing. However, market timing is more a guessing and less a rational way to earn long-term profits. In this article we are saying that time in the market but not timing the market is what matters in investing.

What is market timing?

Market timing simply means buying low and selling high in an effort to buy before the markets go up and sell before the markets go down. All markets fluctuate and market timing is aimed at taking advantage of it. Therefore, market timing is an act of making buy or sell decisions of financial assets (often equities) by attempting to predict future market price movements.

According to the background of the prediction we can divide market timing into two types: intentional timing and unintentional timing. Intentional timing is based on fundamental factors and historical data to determine when investing in specific asset classes is attractive and when it is not. In some of previous articles about investing we were writing about things (i.e. leading indicators, economic cycles) which can provide guidance for what to expect in the future. But does fundamental factors and historical data correspond a sufficient background to time the markets? Economy is a complex system that contains many factors, even at times of significant market optimism or pessimism, it remains difficult, if not impossible, to predetermine the future prices with any precision. Therefore, expectations are only the forecast of what can happen based on available information, but there are no guarantees that expectations will be fulfilled because no one knows what exactly will happen in future.

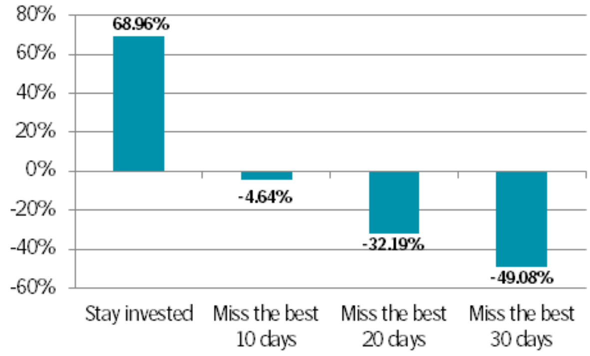
Unintentional timing is behavioral – it is rooted in a natural fear and greed mechanism that we must learn to control. Therefore, bad things can happen when investor unintentionally times the market due to emotion. Being wrong once means getting out at the wrong time, or not getting back in at the right time. Being wrong on both can lead to long-lasting detrimental effects. Capitulation in a falling market and then sitting out during the recovery creates deep psychosocial damage. This damage can keep investors away from the markets for an extended period of time – sometimes for life.

The professionals like fund managers can be an example of the ones who aim to time the markets intentionally. Unintentional timing is a common example between average individual investor. Fund managers can have a strategy of creating value by benefiting from market timing. However, it is very challenging to benefit constantly from market timing in the long-run. Therefore, fund managers may aim to decrease the risk of market timing mistakes by diversifying fund assets. The wider the diversification - the lower the probability of market timing mistakes.

Time in the market but not timing the market

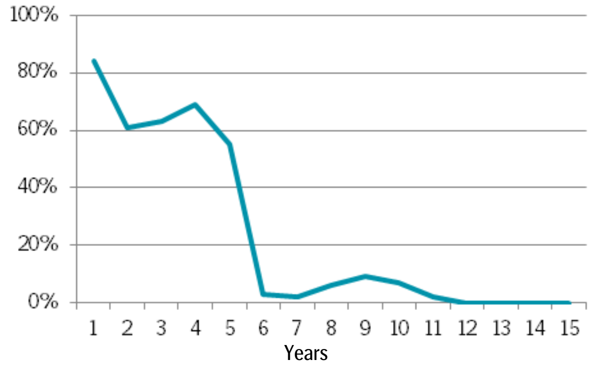
Even for professionals it is very difficult to predict when is the best time to enter or exit the market. The speed at which markets react to news means prices have already absorbed the impact of new developments. When markets turn, they turn quickly. Those trying to time their entry and exit may actually miss the bounce. The graph 1 below highlights the impact of an investor in global stocks missing out on returns on the market's best days over the 10 years. Missing out on just the 10 best days in the market since 2002 till 2012 will have left your assets in negative territory.

Graph 1. Missing out days with the best investment returns, MSCI Global Equities, 2002-2012



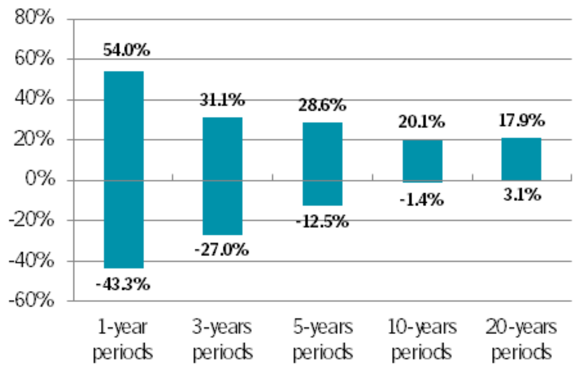
As we know, markets move in cycles. Over short periods, markets can be more volatile and result in a wide range of positive or negative returns. But the longer you stay invested, the greater the probability that your investment will generate a positive return. As shown in the graph 2, during the last 30 years investing in global equities for periods of 12 years or more has resulted in no negative returns.

Graph 2. Probability of negative returns when stay invested in global equity in different period of time, MSCI Global Equities, 1980-2012



According to research conducted by Charles Schwab Company in 2012, between 1926 and 2011, the worst 10-year holding period average annual return was -1,4% and 20-year holding period never produced a negative result (graph 3). This is some very compelling data to convince investors to stay in for the long-run.

Graph 3. Range of S&P 500 returns, 1926-2011



Conclusion

What we can say with certainty is that it's very difficult to be successful at market timing continuously over the long-run. We should not let short-term market movements alter our investment discipline. On the contrary, keeping calm and adopting a consistent and disciplined investment approach could help ride out volatility. For the average investor who doesn't have the time (or desire) to watch the market on a daily basis, there are good reasons to avoid market timing and focus on investing in a widely diversified solutions for the long-run.

Sources: Forbes, Morningstar, MSCI, Charles Schwab, Fidelity, Investopedia.

Impact on product groups of different risk categories

Product group	Impact during the last month and expectations looking forward
Conservative (low risk)	Last month government bond yields were tend to decrease a bit. Low inflation and weaker growth signals in some places will give central banks reasons to keep key interest rates low for another while. Government bond yields will probably remain at record lows for a while but probably not for very long given a stabilization of euro zone inflation followed by rising inflation expectations and that the Fed will begin hiking key interest rates. There is not a lot of room for further yield decrease in investment grade (IG) corporate bonds, and the best period of these bonds in this interest rate cycle is now behind us.
Balanced (medium risk)	Acceleration in equity markets benefited our balanced portfolios (covering various asset classes), therefore they generated solid returns during last month. Looking ahead, in the high yield (HY) bonds market in the short term, wider spreads between high yield (HY) and government bonds have increased potential, but expectations of gradually rising government bond yields during the coming year will continue to pose a risk. Shorter duration high yield bonds thus appear the most attractive. Although we believe that global HY bonds will outperform IG and government bonds over the coming 12 months, we regard equities as relatively more attractive.
Aggressive (high risk)	An autumn mood dominated stock markets in late September and early October. The rebound that then began has brought share price increases to a 8% for the world stock market (MSCI All Country Index) YTD by the end of November. Assuming persistently strong US economic growth, a supply of liquidity from central banks, cheaper energy and lower price/earnings (P/E) ratios, there are reasons to expect stock markets to continue improving. The sources of concern which may contribute to increased market volatility are Fed's next potential key interest rate hike, weak economic growth in Germany and elsewhere in the euro zone. geopolitical risks (such as Ukraine/Russia and Iraq/Syria/IS). A long-lasting upturn will also require support from corporate earnings.

Terminology explanation

Terminology used	Explanation
Asset-backed security (ABS)	A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.
Gross Domestic Product (GDP)	The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
Duration	A general decline in prices of goods and services. Deflation can be caused by a reduction in the supply of money, also by a decrease in government or personal spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression. Central banks attempt to stop severe deflation, along with severe inflation, in an attempt to keep the excessive drop in prices to a minimum.
Investment grade bonds, high yield bonds	Investment grade bonds – bonds (sovereign or corporate) with credit ratings that indicate a relatively low risk of default. High yield bonds – bonds (sovereign or corporate) with credit ratings that indicate a relatively higher risk of default than investment grade bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds. Two main credit rating agencies Standard & Poor's (S&P) and Moody's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. S&P designations of 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as high yield or "junk bonds".
Non-farm payrolls	It is an influential statistic and economic indicator released monthly by the United States Department of Labor as part of a comprehensive report on the state of the labor market. The total non-farm payroll accounts for approximately 80% (it does not include farm workers, private household employees, or non-profit organization employees) of the workers who produce the entire gross domestic product of the United States. The nonfarm payroll statistic is reported monthly and is used to assist government policy makers and economists determine the current state of the economy and predict future levels of economic activity.
Organization for Economic Cooperation and Development (OECD)	A group of 34 member countries that discuss and develop economic and social policy. OECD countries are developed democratic countries that support free market economies.
Organization of Petroleum Exporting Countries (OPEC)	An organization consisting of the world's major oil-exporting nations. OPEC was founded in 1960 to coordinate the petroleum policies of its members, and to provide member states with technical and economic aid. OPEC is a cartel that aims to manage the supply of oil in an effort to set the price of oil on the world market, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.
Oil types: Brent and WTI	Brent Blend (Brent) and West Texas Intermediate (WTI) oil types are used as benchmarks for the prices of other crude oils. Roughly two-thirds of all crude contracts around the world reference Brent, making it the most widely used marker of all. These days, Brent actually refers to oil from parts of the North Sea off the coast of the U.K. and Norway (Brent, Forties, Oseberg and Ekofisk). Because the supply is water-borne, it's easy to transport to a distant locations. WTI refers to oil extracted from wells in the US (sent via pipeline to Cushing, Oklahoma). The fact that supplies are land-locked is one of the drawbacks to West Texas crude – it's relatively expensive to ship to certain parts of the globe. WTI continues to be the main benchmark for oil consumed in the United States.
Price-earnings ratio (P/E)	A valuation ratio of a company's current share price compared to its per-share earnings for the past year. For example, if company's share price is EUR 100 and it reported EUR 10 per share in annual earnings, the P/E ratio would be 10. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio does not tell us the whole story by itself. It is usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E.
Yield	The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Stock market indexes performance information covering the immediately preceding 5 years till 30 November, 2014

Region	Index	Currency	Performance						
			2009	2010	2011	2012	2013	12 months	2014 YTD
USA	S&P 500	USD	23,5%	12,8%	0,0%	13,4%	29,6%	14,5%	11,9%
Europe	MSCI EURO	EUR	22,5%	-2,2%	-16,5%	15,6%	19,6%	5,9%	5,2%
Eastern Europe	MSCI EM Eastern Europe	USD	79,3%	13,7%	-23,3%	13,2%	-2,9%	-26,1%	-26,1%
Asia	MSCI EM Asia	USD	70,3%	16,6%	-19,1%	18,1%	-0,2%	3,3%	4,7%
Latin America	MSCI EM Latin America	USD	98,1%	12,1%	-21,9%	5,4%	-15,7%	-8,6%	-6,0%