STOXX

MONTHLY INDEX NEWS

May 2015

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Newsletter Overview

Performance: Top 5 STOXX Indices – Comeback of Latin America

1M Performance (April 2015)

STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	28.80 %
STOXX CHINA TOTAL MARKET USD – TOTAL RETURN INDEX	17.22 %
STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	16.53 %
STOXX EASTERN EUROPE TOTAL MARKET USD – PRICE INDEX	11.97 %
STOXX LATIN AMERICA TOTAL MARKET USD – TOTAL RETURN INDEX	10.44 %

Source: STOXX Limited

1Y Performance (YTD Apr. 30, 2015)

STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	126.27 %
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	72.85 %
STOXX CHINA TOTAL MARKET USD – TOTAL RETURN INDEX	48.19 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	29.54 %
STOXX GLOBAL SELECT DIVIDEND 100 USD – TOTAL RETURN INDEX	26.09 %

Source: STOXX Limited

(Top 5 STOXX indices, performance as of Apr. 30, 2015; all performance figures are in USD whenever specified in the index name, in euro in the remaining cases)

- Latin America made a comeback afterpoor performance in the first quarter. Hungary held the top spot in the emerging countries performance league table for April and Russia was one of the runners up in the same month.
- China started the month on an upbeat mode as comments from People's Bank of China Governor Zhou Xiaochuan raised expectations of additional monetary-policy easing and triggered a market rally. China gained increased focus on investors' radar despite weaker economy data.
- Momentum was short lived, though, as macro data released at mid-month showed that China's economy rose 7% in the first quarter, its slowest pace since the first quarter of 2009. Manufacturing and real estate dragged on the pace of economic growth. Nonetheless, weak macro figures fuelled expectations of an additional stimulus package.
- Expectations were later fulfilled as, effective from Apr. 20, People's Bank of China lowered the reserve requirement ratio for all banks by 100 bps to 18.5% in an attempt to fend off slowing growth by stimulating bank lending to the real economy.

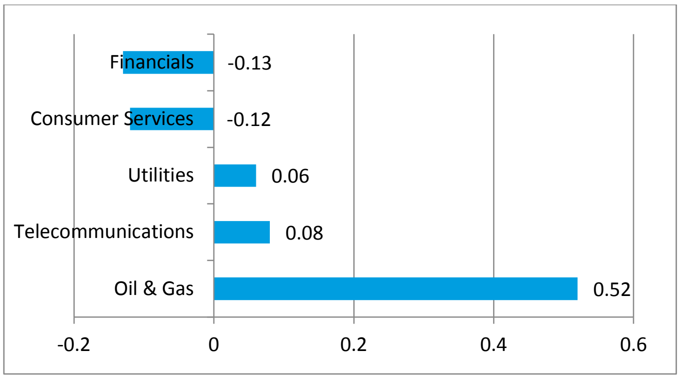
Market Comment by Aureliano Gentilini, Head of Research, STOXX Ltd.

"As confirmed by recent global market trends, financial market volatility remains anchored to expectations about central banks' forward guidance, macro information arrival and any changes in the stance of monetary policy across key economies and regions."

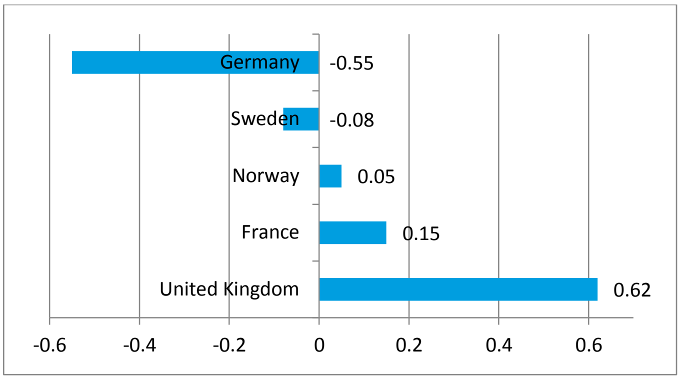
"Portfolio exposure to equity indices showing uncorrelated return patterns and/or a certain degree of protection against downside risk - such as minimum variance and low riskbased portfolios - are best positioned to outperform marketcap-weighted benchmarks over longer-term horizons and whenever market conditions feature higher volatility patterns.

The asymmetric response of low-volatility portfolios to market movements points to their ability to provide a certain level of downside protection in uncertain market conditions."

STOXX Europe 600 Index: Domicile Country/Industry Sector Contribution – UK offsets weakening German market (April)



Source: STOXX Limited



Source: STOXX Limited

(Top 5 domicile country and industry sector contribution to STOXX EUROPE 600 index in March; all performance figures in EUR)

- The STOXX Europe 600 returned +0.22% in April. At Apr. 15 close the index hit an all-time high at 416.06, well above the former historical all-time high posted on Mar. 6, 2000 at 405.495 points. Over the first four months of 2015, the wide European benchmark returned a remarkable +17.06% total return.
- Positive return in April was sustained in particular by the Oil and Gas sector. Crude oil prices closed the month near their 2015-high. Earlier in the month, crude prices rose amid expectations that US shale oil production would record its first monthly decline in more than four years and on concerns about a sectarian war in Yemen and an escalation in the Middle East.
- Financials were at the bottom of the performance table and detracted from the monthly return of the index.
- At a country level, UK held the top spot in the performance contribution league table, with France ranking as the runner-up. Despite insecurity before the elections, the UK market performed after the Greek crisis slightly eased in April.
- Germany had a negative impact in April after the country had the top spot in March. Heavy distortions in the debt market sustained by the ECB system's massive purchase program were corrected before the end of April.

Investment Outlook – Five Key Developments To Consider, By Aureliano Gentilini, Head of Research, STOXX Ltd.

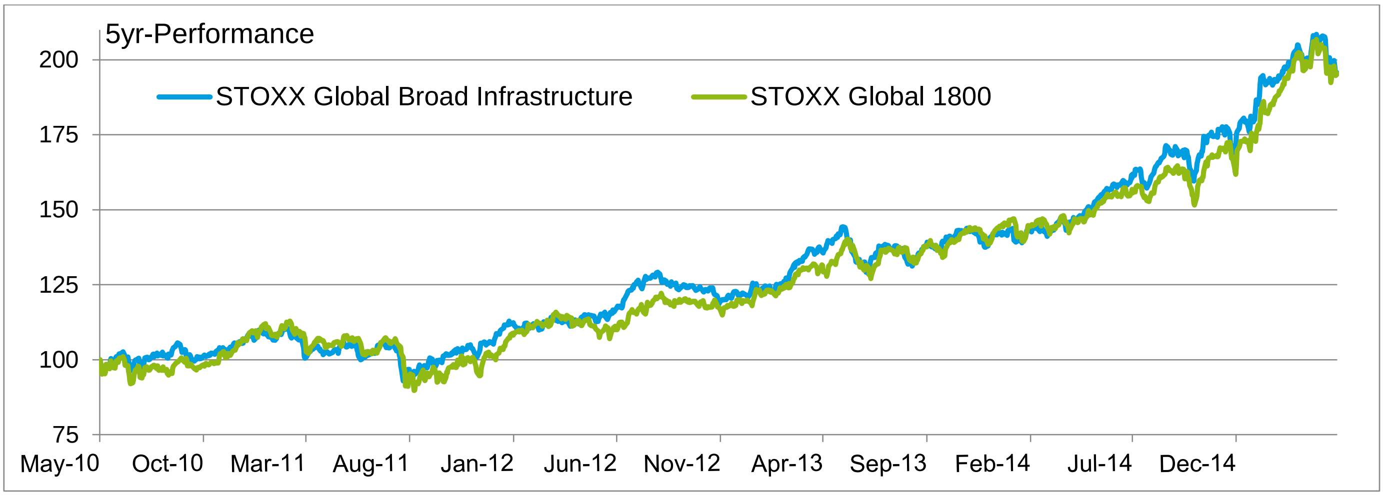
1. Both macro fundamentals and corporate earnings need to confirm the stock market uptrends that we have been observing in China, Europe and Japan since the start of the year.
2. Any deterioration in the pace of corporate earnings might favor minimum variance portfolios. The above is in light of a mean reversion effect triggered by an overestimation of the length of the earnings trend. Those companies that are more profitable in a given reporting period might subsequently lose their profitability, since in many cases success stories cannot be sustained indefinitely. Growth stocks, in particular, appear to be affected by this bias, since their market prices factor in expectations of long-term profitability.
3. The party among peripheral Eurozone countries is not over and government bond spread tightening may resume. The recent sharp correction of heavy value distortions in the Eurozone government debt market appear to have halted as ECB policymakers have announced the central bank would front load its asset buying program before a summer lull.
4. Worries about Grexit have escalated again recently. Despite various institutional representatives have sent the message that a Greek exit would be manageable, we have the opinion that a debt default would lead to an adverse outcome. A knock-on contagion effect can still materialize in a context where downside risks for the Eurozone economy have not faded away.
5. The Brexit argument appears to exacerbate the Grexit obsession, with a potential adverse outcome for the entire EU project in case it should materialize. Securing the eurosceptic UK Conservative party's vote to stay in the EU in an in-out referendum appears to be strictly dependent upon two conditions. Mr. Cameron's ability to secure his objectives in negotiating with EU leaders and the timing of the referendum. The sooner the better for the latter condition.

Fact of the Month:

John Clifton Bogle – 40th Anniversary of the 1st public available index fund

This month is the 40th anniversary of the Vanguard 500 Index Fund as well as John Bogle's 86th birthday. Influenced by the works of Nobel Prize winners Eugene Fama and Paul Samuelson, as well as by Burton Malkiel, Bogle founded in 1975 the Vanguard 500 Index Fund as the first mutual fund available to the general public. The index fund started with meager assets of USD11 mn, a fraction of the USD50 to USD150 million Bogle had hoped for – and not even enough to buy every stock in the index. Today the Vanguard 500 has more than USD200 bn assets under management.

Index of the Month – STOXX Global Broad Infrastructure Index



Source: STOXX Limited

(5-year performance of STOXX Global Broad Infrastructure and STOXX Global 1800 as of May. 18, 2015; all performance figures are indexed and in EUR)

- Infrastructure companies display a lower sensitivity to market cycles compared to the broader equity market, thereby mitigating their losses in bear markets. Companies display significantly lower variability in cash flow and operating income compared to the broad market, indicating that infrastructure companies are subject to lower business risk.
- The STOXX Global Broad Infrastructure Index offers a diversified representation of companies that generate more than 50% of their revenue from selected infrastructure sectors. STOXX partnered with Revere Data, which defines 17 subsectors for the infrastructure industry. These 17 subsectors are rolled into five supersectors – Communications, Energy, Government Outsourcing/Social, Transportation and Utilities. A cap factor is applied not only at the component level (5%), but also on supersector (30%) and country (40%) levels to ensure a high level of diversification.
- The STOXX Global Broad Infrastructure shows – compared to the STOXX Global 1800 – slightly better figures regarding risk and return over the past years. The annualized return over the last five years is at 15.5% while the broad market achieved 14.6%. The index decreases volatility from 13.0% to 12.1%. However, the infrastructure index is an effective tool to increase yields and to help investors to generate income in the low interest rate environment. The STOXX Global Broad Infrastructure increases the dividend yield from 2.5% to 3.2% for the last 12 month as of Apr. 30, 2015. Only in terms of price/earnings ratio the infrastructure index is trailing the STOXX Global 1800 index by 120 bps.

Further information: www.stoxx.com/news/research/articles.html

Meet us

- Nordic Structured Products & Derivatives Conference, Stockholm, Sweden, May 28
- EPI Summit, Montreux, Switzerland, June 8-10
- Inside ETFs Europe, Amsterdam, The Netherlands, June 9-10

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