

Flash Note
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Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

Probability of a Risk-Off movement in the global equity markets in April

Dear all,

Thinking that you can guess what markets are going to do in the short term is more outlandish than believing in the temporary transfiguration of the soul to talk to your deceased mother-in-law. And I do not say it because of transfiguration, but rather because one does not want to talk to his mother-in-law even when he is alive.

Any case, demonstrated my predictive inability for the immediate time, we (in the Andbank Investment Committee) developed a series of indicators of flows, positioning and surveys (to market agents) to assess the violence with which the recent movements occurred, with the aim use a contrarian approach. This allows us to calibrate whether the market is deeply overbought or oversold, and thus determine the probability of a Risk Off shift.

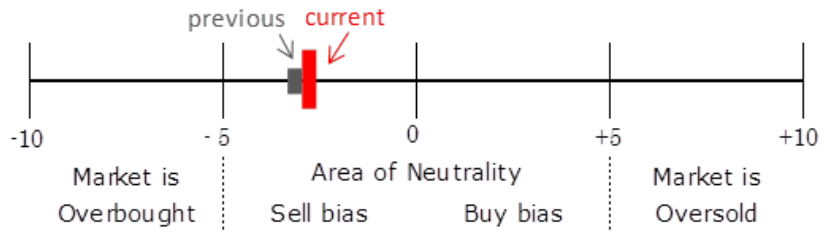
I leave you the conclusions of our last report (courtesy of Andrés Pomar and Alejandro Sabariego, Luxembourg based members of the Andbank's Investment Committee).

Andbank's Global Equity Market Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	1	1
Positive Bias	4	3
Neutral	3	7
Negative Bias	7	3
Sell signals	7	8
FINAL VALUATION	-3,4	-3,2

Andbank's Global Equity Market Composite Indicator

Preliminary assessment of the level of stress in markets



Andbank GEM Composite Indicator: WE REMAIN IN AN AREA OF NEUTRALITY WITH A SELL BIAS. Our broad index has moved from a -3.4 level last month to -3.2 (in a -10/+10 range), setting in an area that suggests that the market is moderately overbought (although not significantly stressed). We therefore conclude that: a) the market is expensive although in terms of flows and managers' positioning the movements have been gradual rather than violent. b) Admittedly, the likelihood of a sudden Risk-off has been reduced after the slight correction seen in the S&P500 in March. There is still room for the market to go deeper into the "overbought" area.

Positioning: Macro Discretionary Hedge Funds (rolling equity beta to the S&P500) became rather cautious, reducing their risk appetite due to two reasons (FOMC meeting and Dutch election result). Once both risk events are no longer in place, it would be appropriated to monitor whether institutional investors change their minds about adding risk in the forthcoming weeks. Quite the contrary, retail investors are calling the shots as they are continuing to deploy their excess cash levels into passive equity funds last month. JP Morgan's option skew monitor on S&P500 peaked after many months demanding for more calls than puts. The Citi Macro Risk Index (a measure of risk aversion) suggests that investors are quite relaxed and risk aversion is not at all intense.

Sentiments indicators: Investors keep being complacent but the aforementioned events moderated the euphoric levels in the equity markets' surveys. If it had not been for those, our broad index might have boosted to a clearly overbought area.

Regards,

Alex Fusté
Chief Economist
Andbank