Group Economics

Ulster Bank

Negative Equities

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Negative equity is a term we associate with the property market. Negative equities, however, have been the order of the day in stock markets across the globe. Investors who did not adhere to the old adage of sell in May and stay away will be worse off, albeit on paper, than if they had followed the advice.

Instead, looking at the main equity markets, the month of May has been a sea of red with losers and big losers. In the US of A, the largest equity market in the world – the S&P 500 – fell by 6.3% in May, marking Wall Street's worst monthly loss since last September. That said it remains in the minority of indices still in positive territory year-to-date *(+4.2%).* Similarly, Japan's Nikkei 225, ended last month 1% higher than it started the year despite the 10% plunge in May. The trend has not been the Japanese stock market's friend with the wider Topix index (all 1,700 companies as opposed to Nikkei's top 225) recording its 9th successive week of declines during the final week of May. This is the Topix's longest losing streak since 1975.

Even the mighty BRICs *(Brazil, Russia, India & China)* hit a wall of sellers in May with China the best performer *(-1%)* and Brazil the worst *(-12%)*. Despite these recent declines, both China *(+8%)* and India *(+5%)* remain in positive territory year-to-date. Conversely, investors tracking the main Brazilian and Russian exchanges are nursing losses *(before fees)* of 4% and almost 12% respectively.

Within Europe, those economies in the eye of the euro zone debt crisis have fared the worst. Not surprisingly, the biggest loser was Greece with its main index falling by a whopping 25% in one month. Meanwhile, the Spanish IBEX *(-13%)* and Italian FTSE MIB *(-12%)* exchanges also posted steep declines during the same period. To date *(up to 31st May)*, Spanish investors have tried to hold onto their sombreros as the IBEX has plummeted by 29% in five months.

Over the same period, Greece's performance has been more favourably with only a 23% decline. However, context is important. The Greek ASE Index has fallen by 90% from its 2007 high and is back at levels last seen in January 1990. By comparison, the Spanish IBEX has fallen by a mere 62% relative to its 2007 peak and is back at levels last seen in April 2003. Interestingly, Ireland *(ISEQ)* is the only one of the so-called *'PIIGS'* to be in positive territory so far this year (+6%). Nevertheless, the ISEQ is still 69% below its 2007 peak.

Outside of the euro zone periphery, the exchanges in the three largest EU economies; Germany, France & the UK declined in May. On the 31st May, however, the German Dax was still 6% higher than it started 2012. The FTSE 100 and the French CAC on the other hand are both 4.5% lower.

For investors tracking the equity markets in the euro zone periphery it has likely been a case of OMG! Conversely, those following the OMX exchanges *(encompasses the Nordic countries and Baltic States)* will have been more economical with their profanities and indeed feeling quite smug. For example, the main Danish OMX exchange has risen by 11% up to the 31st May. Some may think that this is *'probably the best equity market performance in the world'*, but they would be wrong. The Estonian and Lithuanian exchanges have posted strong double-digit rises and we should also note that Iceland is up 18%.This highlights there is equity life after a default.

In these turbulent times the number one priority for investors is capital preservation rather than capital growth. This explains why investors are flooding to the safe haven of US Treasuries and German government bonds despite the fact that the shorter-dated varieties of these will yield a negative return. However, as noted earlier not all equity markets are in decline. They say that fortune favours the brave and those contrarian investors who took a punt in some of the most obscure markets will have bucked the wider trend. Those who chose not to follow the herd by investing outside of the ‘Big Five’ stock markets *(US, Japan, Europe, UK and the BRICS)* and went on an investment safari in Africa will have largely seen positive returns over the year to date. Even Middle-East hotspots such as Egypt has seen its stock market rise by almost 30% year-to-date.

In terms of the biggest losers, Cyprus (-54%) has been the world’s worst performing stock market, but Spain unsurprisingly been not too far behind, not least due to the performance of Bankia, the bank that was listed just over a year ago and has now been nationalised. This makes it an even worse IPO than Facebook’s listing, which following the box office success of the film *(The Social Network)*, has been a stock-market disaster, producing the worst return among the largest US deals over the last decade.

Meanwhile, Venezuela, which achieved independence from Spain 200 years ago, and is the home of Miss World, is at the other end of the stock market beauty parade (+105% ytd) from its one time rulers on the Iberian Peninsula. So those who went South (America) may well have bucked the trend and seen their equities go north.

Richard Ramsey,
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