S&P 500 crosses 2,000 landmark

PERSPECTIVES

On 25 August, the S&P 500 Index exceeded the 2,000 level for the first time

- Remarkably, since its crisis period intraday low of 666 recorded on 6 March 2009 (5 years ago), the S&P 500 index is now up by almost exactly 300%.
- The S&P 500 index has also returned an impressive 59% since the start of 2012, 40% since the start of 2013 and 8% in 2014 to date.

S&P 500 at an all time record high

Source Datastream as at 26.08 2014

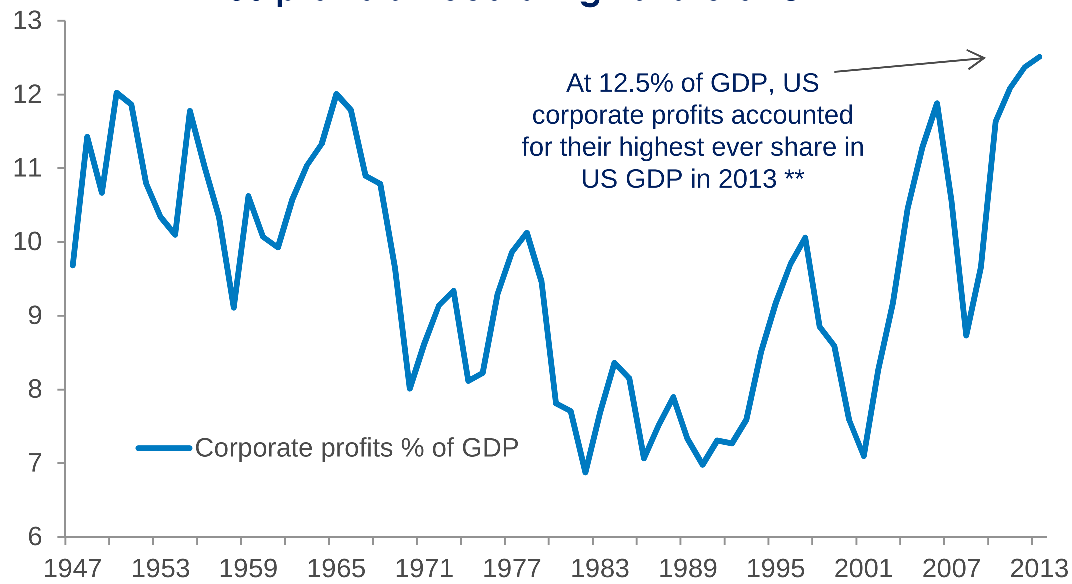
Where next for US equities?

PERSPECTIVES

Taking stock - some potential issues…

- US equities' strong performance has occurred amid a backdrop of unprecedented monetary accommodation which has helped to underpin global investor risk appetite.
- However with US equities no longer cheap on most valuation measures and with US profits accounting for a record high share of US GDP, there are some concerns about the outlook, including the impact of US monetary policy normalisation.

US profits at record high share of GDP *



Source : US Bureau of Economic Analysis, June 2014; * Note: corporate profits series is pre –tax and includes inventory valuation and capital consumption adjustments
** at the 12.5% in 2013, the record share of profits in GDP was actually tied with the previous record of 1942, when WW2 related spending boosted profits.

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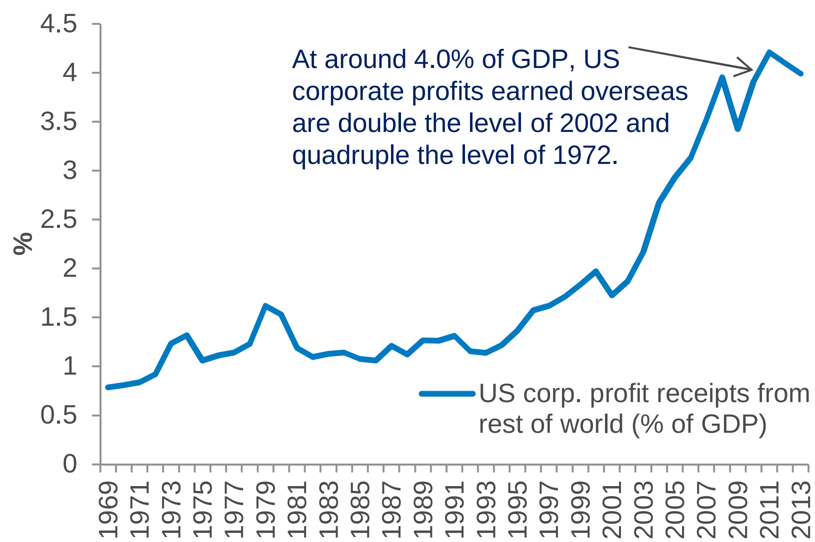
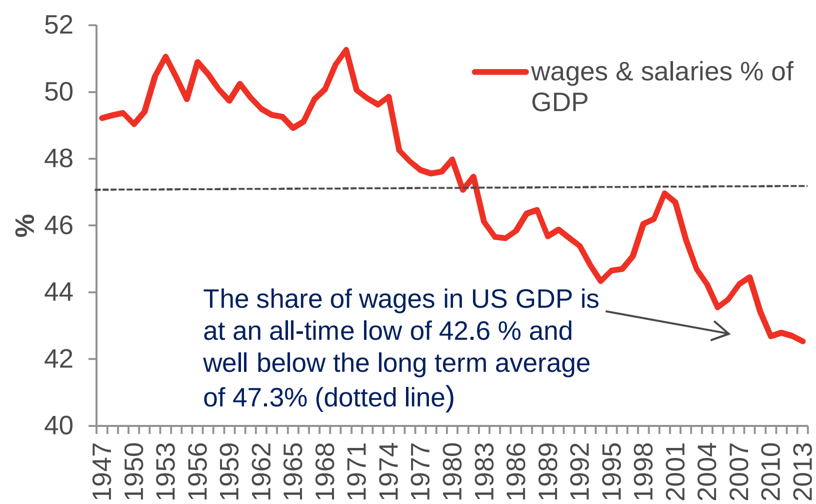
Where next for US equities?

Taking stock - why the multi-year US bull market can be sustained:

- US monetary policy has been successful in boosting the real economy. Given this, monetary normalisation is entirely appropriate and need not be a concern for investors if it progresses smoothly.
- Aside from the cyclical recovery that is boosting earnings, the US is also seeing a structural 'renaissance' supported by the shale revolution , declining budget deficits and a strengthening dollar.
- Indeed, we think it is plausible that the share of corporate profits in US GDP can stay high or go higher due to 3 supportive factors, namely 1) *increasing globalisation* (which boosts US corporations' overseas earnings 2) *US leadership in innovation and technology* and 3) *diminishing labour market power* (owing to rising automation and the structural decline in collective bargaining).

Increasing US foreign profits and the declining share of wages





Source : US Bureau of Economic Analysis, June 2014

Views from our investment teams

PERSPECTIVES

"Despite the strong recovery of the past few years and the S&P 500 reaching the key 2,000 landmark, I remain bullish on the outlook for US equities and feel the strength and duration of the resurgence will surprise many investors.

Equity market volatility remains anchored and the outlook for the US economy is supported by a number of positive structural factors, including the shale boom and the improving budgetary position. The earnings outlook also remains favourable and I think that those analysts that are arguing that US profits can't go higher are very likely to be proved wrong."

Dominic Rossi, CIO Equities, Fidelity

"Despite US equities hitting record highs, I do not think that valuations are overextended compared to history. As always, it is important to consider the context – we are still in an environment of record low interest rates and the US earnings outlook is both robust and improving. Moreover, the broader US economy is supported by a number of structural factors such as the shale boom and corporate confidence is at its highest for a long time as evidenced by the marked pick-up in M&A activity."

Peter Kaye, Portfolio Manager, US Equities

"After the strong post-crisis period run-up in US equities, it is natural if investors ponder over the sustainability of the rally going forward. Of course, some short term pull backs will be unavoidable, but from a longer term perspective, I believe that US equities are in the middle of a long-term bull market that will be led by innovation coming from the healthcare, tech and industrial sectors."

Aditya Khowala, Portfolio Manager, US Equities

PERSPECTIVES

Important Information

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