Seizing opportunities as stocks markets plunge

Most stock markets in the world, both developed and emerging markets, fell in January. It was the weakest start to a year for stocks since the financial crisis.

The SKAGEN Global team took the opportunity to buy more Citigroup shares after the US bank declined around 20% in January. Photo: Bloomberg.

In January the World Index (MSCI) fell by 6.6 percent in euro. Emerging markets performed marginally better, and fell by 6.5 percent. All of SKAGEN's equity funds fell roughly in line with their benchmarks or more. SKAGEN's fixed income funds also had a tough month and most of them were beaten by their benchmark indices.

One of the most notable macro events in the month was that major central banks in the West have become more dovish in their communication as a result of the greater economic uncertainty. In the US it is now expected that the Fed will raise interest rates only once in 2016. The Bank of Japan has signaled that it will make use of negative interest rates and the European Central Bank has flagged it will carry out further monetary easing in March.

International forecasters, such as the International Monetary Fund (IMF), have revised their forecasts for global GDP growth downwards for both 2016 and 2017. The main reason for this is that growth in emerging markets is expected to be weaker than previously envisaged. According to the IMF, world GDP growth is now expected to be 3.4 and 3.6 percent in 2016 and 2017 respectively.

Stock markets fall around the world

Investors have fled both developed and emerging markets due to concerns that China's economic growth will slow down, but also due to fears that the momentum in the US economy is not sustainable. The mood has swung from negative to positive and back again. The correlation between the stock market and the oil price has been high. The decline in global equities represents a loss of value of almost eight trillion US dollars from 1 January 2016 until the beginning of February. Worst hit were companies in the commodity and energy sectors, as oil prices in January continued to fall. The financial sector has also struggled on concerns that the problems faced by commodity and energy companies may cause losses for financial companies.

"The start of the year is the worst we have seen for a long time. Developments in China should not have come as a great surprise to anyone. We see this as a buying opportunity for long-term equity investors. This makes the not so highly valued stock market a little cheaper. What we are now seeing is nothing more than a global correction that appears on an intermittent basis," says SKAGEN's CIO, Ole Søeberg.

Opportunities in the correction

The US bank, Citigroup, which is SKAGEN Global's second largest holding, fell by about 20 percent in January 2016 as a result of, amongst other things, increased uncertainty about the situation in emerging markets in general and China in particular. Citigroup's exposure to China is, however, low and the SKAGEN Global team therefore took the opportunity to buy more shares when the stock price plummeted.

A marked slowdown in economic activity in Brazil has put the country into recession. This has led to further stock market declines, which in turn create investment opportunities. SKAGEN Focus, for example, increased its investment in the world's largest meat producer, Brazilian JBS in January. SKAGEN Focus also made its first investment in Pilgrim's Pride, the largest chicken producer in the US. The company is three-quarters owned by JBS.