"Good opportunities to be found in a correction"

The weakest start of a year since the financial crisis years provides many buying opportunities for stock pickers like SKAGEN, according to Portfolio Manager Kristoffer Stensrud.

The Shanghai Composite Index has not fallen as much since September 2008. Kristoffer Stensrud sees opportunities in the correction. Photo: Bloomberg

“The start of the year has been one of the worst in a long time. That said, the development in China should not have come as a great surprise to anyone,” says Kristoffer Stensrud, portfolio manager of the emerging markets fund SKAGEN Kon-Tiki. “We view this as a buying opportunity for long-term equity investors. This makes not-so-overpriced equity markets cheaper.”

Investors have fled markets around the world on concerns that China’s economic growth is slowing. Sentiment has swung from negative to positive and back again, tracking developments in both China and the oil markets. The drop in global equity prices has wiped out almost USD 7 trillion since the start of the year.

“We are not facing more than a global correction, in my opinion,” says Stensrud. “The stock market is not terribly overpriced, from a historical perspective.”

Chinese fall to slow global growth?

The price to earnings ratio for the MSCI All Country World Index is now down to 16.2 which is the lowest it has been since October 2014. For the MSCI Emerging Markets Index the price to earnings ratio has declined to 10.7, bringing valuations back to the level they were at the end of the first quarter of 2014.

As a result of the concerns, the MSCI All Country World Index has so far this year declined

8.7 percent* measured in euros, fuelled in part by the decline in global emerging markets which have posted a fall of 10.2 percent in the first three weeks of the year. The Shanghai Composite Index has in the same time period lost 18.7 percent, which is the largest drop since September 2008.

“There is great uncertainty about the economic growth rate in China and how much this extends to the rest of the world,” said Torgeir Høien, who manages the global government bond fund SKAGEN Tellus. “The growth rate in China is probably lower than the official figures indicate.”

The correction affects all sectors

Looking at the MSCI All Country World Index it is noticeable that all sectors have declined so far this year. The largest declines, with drops of 10 percent or more, can be found among the materials, energy, financial and consumer discretionary sectors. These sectors are set to be most affected by a slowing Chinese economy and spill-over to the rest of the world.

Among SKAGEN’s funds, SKAGEN Global is down 8.7 percent, while SKAGEN Kon-Tiki is down 11.3 percent so far this year. SKAGEN Vekst has declined 10.4 percent.

“The year has so far been one marked by volatility and there could be more to come throughout the year. One will do well by keeping calm and taking advantage of the opportunities as they arise,” concludes Stensrud.

** all figures in EUR as of 19 January 2016*