

RIDING OUT THE MARKET STORM

AVIVA INVESTORS
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Key points

Equities and other risk assets have begun 2016 in grim fashion

But pessimism appears overdone

There is long-term value in shares for patient investors prepared to ride out the storm

Having said that, caution is the watchword as downside risks are mounting

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*Investment professionals listed are members of AIA's participating affiliate, Aviva Investors Global Services ("AIGSL").

New year, same old story. Equity markets have begun 2016 in comparable fashion to the way in which they ended 2015. Plagued by the same cocktail of woes that began to pressure markets in the middle of 2015, major global stock indexes, including the S&P 500[®] and MSCI World Indexes, had their worst week in more than four years.

Multiple confluent concerns over events in China; a continuing plunge in oil prices; the impact of the December 2015 U.S. interest rate hike, the first in nearly a decade; the adverse effects on company profits of spiraling debt funding costs; and tensions in the Middle East – all continued to exact a heavy toll on shares.

Stocks suffered their biggest weekly drop since September 2011 and the steepest slide over five days to begin a year on record. Even news of further strong growth in U.S. employment was insufficient to arrest the slide.

The sell-off has not been confined to shares. Oil prices have tumbled nearly ten percent, heading seemingly towards \$30 per barrel, a level last seen in 2003. Indeed, save for gold and government bonds, the price of almost everything, from stocks to sugar, has plunged.

Already this has begun to lead to a series of siren calls from a number of prominent investors, some of whom have been quick to draw comparisons with the start of the 2008 financial crisis. However, we would be wary of some of the more alarmist calls inevitably making their way on to the front pages of the financial press.

Although the sell-off shows little sign of abating, pessimism appears overdone. It's worth remembering that global economic output continues to expand at a reasonable pace supported by loose monetary policy, while inflation is low and stable. That will support corporate profitability.

Furthermore, valuations do not look excessive. While price-to-earnings ratios (share prices relative to company profits) are above their long-term average, they look reasonable when one considers the low rates of returns available from investing in government bonds.

As a result, while acknowledging that there are sizeable risks at present, we remain moderately bullish on shares and other risk assets. As in the summer of 2015, the steep slide in prices is creating attractive opportunities for long-term investors prepared to do their research and to ride out the storm.

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