

## January Article

### Should we be optimistic for 2016?

The year of 2015 was full of action all around the world. However, some regions benefited more than others.

The American economy continued its recovery, what ultimately "forced" the Federal Reserve (Fed) to increase the interest rates last December for the first time, since 2008. For 2016, analysts are expecting new interest rates hikes but the rhythm to be followed by the Fed chairwoman Janet Yellen remains to be seen. In relation to the stock market, during 2015 the S&P 500 suffered a lot in August with the volatility of the Chinese economy. Nonetheless there were some great performers like Apple (hit a record USD 775 bn market capitalization) and Netflix (best performer of the year with a return of 143%).

By contrast, the European economy had a very volatile year mainly because of "Grexit's" threat, the huge influx of refugees from warzones in Syria and the Volkswagen scandal.

In what concerns the emerging economies, they had a very difficult year due to the slow-down in the Chinese economy and the fall of oil prices. Countries like Brazil and Russia rely a lot on their natural resources wealth and also on countries like China, which used to play a bigger role in these countries' commercial balance. This situation allied with high inflation rates had a significant impact in the growth rates of these countries that are also slowing down, leading ultimately to recessions.

In terms of M&A deals, 2015 was the greatest year of the century so far. When comparing it with 2014, we observed an increase of USD 4 Trillion during the last year. In fact, this performance was related with the so-called "mega-mergers"\* which established a new record of 56 deals.

But that wasn't the only record to be beaten in 2015. The deal between Pfizer and Allergan is the largest health-care transaction of all time, as well as the deal between Dell and EMC in the technological sector and, finally, between AB Inbev and SAB Miller in the beverage's industry.

Concerning 2016, there are key subjects that worth our attention in the next months. Questions like the possibility of future interest rates increases by the Fed, the state of the Chinese economy and its growth rate, the volatility of oil prices and, finally, the evolution of the European instability all need to be addressed.

According to the futures market, the first interest rate increase of 2016 can occur at the 16<sup>th</sup> of March with a probability of 55%. However, every single increase has a global impact and that is why it is so important for the Fed to assess what is the adequate rhythm that minimizes these consequences.

Regarding the Chinese economy, analysts expect another very volatile year. In 2016, the growth rate of the Chinese economy should be lower than 7% which is worrying investors all over the world. Due to the importance of the Chinese market for many economies, even a small difference in the forecasted growth rate could have significant multiplier effects.

The Oil prices are expected to continue to decrease if there is not a cut in production. European countries like Portugal benefit with this decrease, since they are traditionally importers of oil. However, if the price continues to decrease, this will continue to negatively affect the emerging economies, slowing-down even more their growth. Their hopes reside on the speculation about whether OPEC's

countries will cut or not the production of oil, situation that would allow the prices to increase again.

In Europe, the ECB is expected to continue with its Quantitative Easing program, which aims to ease the European financial conditions. The European stocks are being recommended by some financial institutions as good investments for 2016, which might enable them European stocks to outperform the US stocks for the first time in recent years. This forecast has become very popular among equity analysts in recent weeks.

Though the evolution of the Chinese economy continues to be quite uncertain, the expectations regarding the stabilization of the European markets and the strengthening of the American economy allow us to believe that 2016 will be in general a better year than 2015 and for sure an interesting and thrilling year for financial markets.



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