
Equities should continue to rise in third quarter: Prudential

By Editor Test *Mon, Aug 26, 2013*

Improvement in the corporate earnings outlook and supportive valuations were positive indicators for stocks, the report from Prudential global investment strategist John Praveen said.

Global stock markets should remain in a modest uptrend with the Federal Reserve unlikely to begin slowing its bond purchases before the fourth quarter of 2013 or early 2014, and with continued support from other developed central banks, according to the September Global Investment Outlook from Prudential global chief investment strategist John Praveen.

A surprising level of upside growth occurred in both the U.S. and the Eurozone during Q2 and growth remains solid in Japan. Improvement in the corporate earnings outlook and supportive valuations were positive indicators for stocks, the report said.

Global stocks

Equity markets rallied in July for several reasons:

- Reassurance from the Federal Reserve that it would continue buying bonds;
- Optimism about Japan Prime Minister Shinzo Abe's "third arrow"—proposed financial deregulation—with the solidification of an effective majority following the LDP upper house election victory;
- Continued Eurozone stabilization;
- Chinese policy makers reaffirming their objective of over 7% growth.

Looking ahead, global equity markets are likely to post further modest gains with:

Developed central banks remaining committed to keeping interest rates low for an extended period and continuing to provide liquidity;

- The Fed unlikely to begin QE taper until late Q4 or early Q1 with inflation below the Fed's 2% target;
- Improving global growth with upside growth surprises in the U.S. & Eurozone;
- Earnings outlook remains solid with improving GDP growth in the U.S. and Europe and continued solid growth in Japan;
- Valuations remain supportive;
- Improving risk appetite with easing of Eurozone risks.

However, in the near-term, market volatility is likely to remain high with:

- Escalating tensions in Egypt threatening to destabilize the Middle East region and cause a spike in oil prices;
- Renewed chatter that strong U.S. macro data could prompt the Fed to start QE taper as early as

September;

- Continued growth disappointment in China and other emerging economies and policy tightening to defend weak currencies and tackle inflation.

Fixed income

Bond yields are likely to remain under upward pressure from:

- Improving GDP growth;
- Strong U.S. GDP and ISM readings prompting the Fed to start QE taper as early as September; and
- Bond valuations remain expensive relative to stocks.

However, bonds remain supported by:

- Ongoing bond purchases by other developed central banks and their commitment to keeping interest rates low for an extended period;
- Low inflation in the developed economies;
- Renewed increase in safe haven demand as escalating tensions in Egypt threaten to destabilize the Middle East region; and
- Sluggish emerging market GDP growth.