
Equity correction a buying opportunity: Prudential

By Editor Test Mon, Jun 24, 2013

The equity rally is likely to resume as the liquidity and policy uncertainties ease with the Fed reassuring about QE buying continuing through late 2013, writes John Praveen, chief investment strategist at Prudential International Investment Advisers LLC.

Stocks are likely to continue to struggle and volatility remains high in the near term as investors worry about Fed QE “taper,” uncertainty about further Bank of Japan stimulus efforts to re-flate Japan, global growth concerns, and continued political tensions in Turkey, says John Praveen, chief investment strategist at Prudential International Investments Advisers LLC.

In his July 2013 strategy report, Praveen therefore says he is reducing his equity market overweight “on a tactical basis.” But he sees the dip in equity values as a buying opportunity. According to a summary of his report:

Strategically, global equity markets remain supported by:

- Low interest rates and plentiful liquidity;
- Improving global growth;
- Improving risk appetite as Euro-zone continues to re-stabilize with resolution of the crises in Italy and Cyprus;
- Healthy earnings rebound; and
- Valuations have become more attractive with the recent correction.

“We see the equity correction as a buying opportunity,” Praveen writes. The equity rally is likely to resume as the liquidity and policy uncertainties ease with the Fed reassuring about QE buying continuing through late 2013, Abe-Kuroda deliver the next tranche of stimulus and policy measures in Japan, and global growth picks up.

Praveen also observed:

- We raise bonds to Neutral as yields are likely to remain range bound with upward pressure on yields from QE taper fears, easing of Euro-zone risks and improving growth offset by low inflation in the developed economies and continued central bank buying, even with QE taper.
- Among global stock markets, we reduce overweight in Japan as market likely to remain volatile until fresh Bank of Japan stimulus and Prime Minister Shinzo Abe outlines “third arrow.” Reduce Euro-zone to neutral on Fed taper fears. Remain Neutral on EM stocks with sluggish growth and slow rate cuts. We raise U.S. to Neutral status; it is likely to be a defensive hedge amidst increased volatility.
- Among global bond markets, we remain Overweight in Euro-zone bonds as the economy remains in recession and inflation remains low. Raise U.S. Treasuries to modest Overweight on Q2 GDP slowdown and low inflation. Remain Neutral on JGBs. Remain Underweight U.K. Gilts.
- Among global sectors, we are Overweight on Financials and Information Technology; Modest Overweight on Industrials, Healthcare and Telecoms; Neutral on Consumer Discretionary;

Underweight on Energy, Materials, Consumer Staples and Utilities.

- Among currencies, the U.S. dollar is likely to strengthen against the yen and be range bound against the euro. Further Bank of Japan stimulus and Abe government's reform measures should push the yen back above ¥100/\$.