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GRANT SAMUEL FUNDS MANAGEMENT

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MEDIA RELEASE

**“Episodic” market volatility ahead for 2016**
**China the wildcard in global market outlook**

The year ahead will be one of “episodic” volatility - rather than wildly veering highs and lows – an environment that will create opportunities for astute investors, according to Simon Ho, CEO of Triple3 Partners.

Mr Ho is the manager of the Triple3 Volatility Advantage Fund, which is distributed in the Australian market by Grant Samuel Funds Management.

“The Bank of Japan’s surprise move to cut interest rates to negative 0.1 per cent took the market by surprise last week, and is a good example of the type of episodic volatility we can expect.

“We’ve seen a month of sell-off, followed by markets screaming higher as a result of Japan’s unforeseeable move. This gives weight to the notion that we will see choppy price action in 2016.

“The past two and a half years have been an unusual time of low volatility as markets were largely insulated because of the actions of the central banks. With QE now officially at an end in the US, we are entering a new market environment,” Mr Ho said.

“It is no surprise that ructions have been felt in markets everywhere from late December until now. The lynchpin was always going to come when the central banks starting taking back QE.

“The market has sold off pretty aggressively over the past month and I don’t think it can be sustained. I would expect there to be a bounce.

“The US decision to raise rates in December, followed by the rally of the $US, resulted in commodities tipping over. In particular the oil price has been brought to the fore as the dominant feature.

“While we didn’t necessarily anticipate the commodities rout – it is this rout that has caused much of the upset in markets.”

Mr Ho said the type of market volatility we have seen over the past month is what we can likely expect to see for the rest of this year.

"The past month is a portent of what is to come on the markets this year – bouts of volatility. It will not be calamitous as it was in 2008. It hasn't been like that and it won't be like that. Instead we will see small markets movements of a few per cent frequently, rather than any large GFC-like one day falls."

Despite the market movements we have seen over the past month, Mr Ho says the VIX index – a measure of volatility on markets - has been quite muted.

The VIX measures expected volatility on the S&P500 Index over the next 30 days. If investors expect that the market will move sharply (either up or down), the VIX will give a high reading.

"The average level of the VIX since its inception in 1990 has been at around 19. When markets experienced extreme volatility in August 2014 the VIX spiked intraday to well above 40. Today it is sitting at 22 and has been around this level for most of the month of January."

Mr Ho says events that will affect volatility in markets over the coming year include interest rate movements by the US Federal Reserve, along with any further $US rally.

"The outlook for 2015 ultimately comes down to rates and unless the US economy unravels, which is unlikely, the Fed is committed to raising rates."

In particular a rally in the $US will continue to negatively impact emerging markets, Mr Ho said.

"Since the beginning of QE many emerging markets have increased their levels of debt. With their debt measured in $US, the rally in the $US has made their debt position worse.

"If the $US continues to rally, more emerging markets will be squeezed."

The other looming uncertainty for markets in 2016 is China.

"China has mishandled its economy in recent times and its actions are causing consternation among the central bankers.

"Although a number of Chinese companies issued statements to the Chinese exchange recently, reassuring investors that their largest shareholders were not planning to sell down, the suspicion is that the statements were orchestrated by the Chinese government which undermined the effectiveness of the message.

"China is important to the global economy and the Chinese government hasn't clearly articulated to the world how they are going to respond to their economic challenges.

"The measures that they have taken so far are not the measures that other central banks have taken, and they have not been successful. The world's faith in China has been shaken, and China will continue to be the Wild card in 2016."

For investors in volatility however, a steady VIX level in the mid 20s for the bulk of the year would not be a bad outcome.

"For the VIX to be sitting at 22, it means volatility is sitting at about 1.5 per cent, which means there is plenty of activity in markets."

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***Triple3 Partners** is an independent research and investment firm based in Sydney that specialises in volatility as an asset class and provides volatility strategies to institutional clients. This includes alpha strategies, volatility overlay and volatility research.*

*Triple3 invests in portfolios of options in order to tap the alpha potential inherent in volatility. Using a proprietary quantitative strategy, Triple3 helps investors enhance returns and manage portfolio volatility.*

*Over the past seven years Triple3 has developed quantitative forecasting techniques and portfolio allocation algorithms, which represent a prominent source of its competitive edge. For more information please visit the website: www.triple3p.com*

***Grant Samuel Funds Management (GSFM) Grant Samuel Funds Management (GSFM)** was established in July 2007 and is a subsidiary of the Grant Samuel Group, and co-owned by the executives of GSFM. Grant Samuel Group is an independent investment advisory house founded in 1988 and owned by its executives. GSFM specializes in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.*

*GSFM formed an alliance in October 2007 with New York based Epoch Investment Partners, Inc. to distribute Epoch's investment products to Australian and New Zealand clients.*

*In May 2008, GSFM acquired an equity stake in Tribeca Investment Partners, a successful Australian boutique manager which has been investing clients' funds since 1999.*

*In May 2011, GSFM formed a relationship with Payden & Rygel, a Los Angeles based independent investment management firm established in 1983, to distribute its global fixed income and absolute return strategies in the Australian and New Zealand market.*

*In early 2014, GSFM established a relationship with Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm based in Sydney. Triple3 specialises in volatility as an asset class.*

*GSFM currently represents $6 billion funds under management (as at 31 December 2015). For more information about GSFM please visit the website: www.gsfm.com.au*