

QE driven risk-on uptrend: an opportunity to leverage bullish positioning in Eurozone and Japanese equities

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In lacklustre performing economies fuelled on QE, local equity markets enjoy a near uninterrupted uptrend. Downside risk is perceived to be limited. The prolonged stimulus program by the ECB and BoJ may present an opportunity for investors to leverage their bullish exposure in Eurozone and Japan equities. Investors sharing this sentiment may consider [Boost's leverage ETPs](#) tracking the FTSE MIB (3ITL), DAX 30 (3DEL), EURO STOXX 50 (3EUL), EURO STOXX Banks (3BAL) and TOPIX (2JAL). **Sentiment in Eurozone equities is likely to remain QE-led in 2015**

Extraordinary monetary stimulus, a.k.a. QE, has fed a strong rally in equity markets for a long time. An end of QE is likely to result in dissipating performance. Indications of this first emerged when the Fed first hinted its QE tapering intentions in May 2014. As bond yields climbed out of their record lows, equity markets globally sold off sharply. However, helped by a dovish Fed communicating a very slow QE wind-down and a prolonged period of maintaining the record low policy rates after that, the recovery of equities was relatively swift. Now, as signs emerge that broad based US economic expansion and strong jobs growth is starting to pressure companies to raise wages, the rising inflation expectations are feeding the belief that the fed will hike interest rates sooner rather than later. With this aiding the strengthening of the US dollar and eating into US companies' overseas margins, the rally in US equities has since the start of the year dissipated. The performance of UK equities since the BoE ended QE and gave a relative upbeat assessment of UK inflation expectations too, is weak.

Meanwhile the rally in Eurozone and Japanese equities, have continued unabated. As shown by the orange bars in the chart (see previous page), Eurozone equity markets are up strongly this year, with the FTSE MIB and DAX 30 having risen by almost 21%, while the broader EURO STOXX 50 and EURO STOXX Banks having risen by 17% and 16%, respectively. This year's 11.5% performance of the TOPIX too is remarkable given its 70% performance from 2013 to 2014. In contrast, following last year's exit of QE and increased rate hike speculation by the Fed, The NASDAQ 100 and Russell 1000 emerge as the weakest performing markets, rising by only about 2% and 1%, respectively.

QE driven uptrend of equities encourages longer holding periods for leveraged equity ETPs

The large quantities of government debt purchases by the ECB and broader asset purchase program of the BoJ, is now providing a boost to sentiment in local equity markets. While QE in Japan has accelerated following Abe Shinzo election in December 2012 to now include a broad spectrum of asset classes such as corporates debt, REITs and Japanese equity ETFs to complement government debt, QE in the Eurozone mainly targeting mainly government debt has only just begun this month. With EUR 60bn of monthly debt

purchases by the ECB to persist for at least until 2016, the rally in Eurozone equity markets has legs to extend well into 2015, driven mainly by 1) the artificial floor to downside risk QE has created to bank and insurance stocks which have balance sheets loaded with peripheral government debt, and 2) by the improved export outlook of many multinationals on the back of QE weakening the Euro.

Driven by ECB's monetary stimulus for the next two years and growing evidence that the US economy is on a broad-based sustainable expansion path, Eurozone's equity markets are likely to see a continuation of the uptrend marked with relative low volatility. In such market conditions, it is advantageous for investors to hold on to leveraged bullish bets on indices such as the FTSE MIB, DAX 30 or EURO STOXX 50 for longer, extending the holding period to several weeks or even months. As shown in the chart (see previous page), accompanying this year's strong performance of the underlying indices (the orange bars) are the 3x and 3x leverage (long) ETPs tracking them. In fact, underpinned by the directional rise of equity markets, [Boost's 3x leverage ETPs](#) tracking the FTSE MIB (3ITL), DAX 30 (3DEL), EURO STOXX 50 (3EUL) and EURO STOXX Banks (3BAL) have exceeded their expected return by more than their leverage factor of three times. The 2x leverage ETPs tracking TOPIX (2JAL) too has exceeded their expected return by more than doubling the performance of the underlying.

The market conditions for leveraged positioning in other asset classes compare poorly to equities. The markedly reduced coupon rates everywhere in the developed bond markets mean the ongoing rally in government and high grade corporates is almost exclusively price returns driven, giving bonds increasingly equity-like characteristics. In particular, relative to the ~4% dividend yields of Eurozone equity markets, the less than 2% bond yields of long-dated government debt offer a poor valuation case for bonds, not least in light of the looming Fed rate hike. Major commodities too lack momentum, with the sharp correction of crude oil last summer to accompany downbeat sentiment in gold since 2012 and in copper over the last 5 years. Speculative positioning driven by geopolitical uncertainty and seasonality continue to underpin volatility of crude oil, natural gas and copper in particular. Hence, for investors looking to take advantage of trending market conditions, leverage ETPs tracking Eurozone and Japan equity markets offer the best opportunity to do so.

Investors sharing this sentiment may consider the following leverage equity ETPs:

- Boost FTSE MIB 3x Leverage Daily ETP (3ITL)
- Boost LevDAX 3x Daily ETP (3DEL)
- Boost EURO STOXX 50 3x Leverage Daily ETP (3EUL)
- Boost EURO STOXX Banks 3x Leverage Daily ETP (3BAL)
- Boost TOPIX 2x Leverage Daily ETP (2JAL)
- Boost FTSE MIB 3x Leverage Daily ETP (3ITL)
- Boost LevDAX 3x Daily ETP (3DEL)
- Boost EURO STOXX 50 3x Leverage Daily ETP (3EUL)

- Boost EURO STOXX Banks 3x Leverage Daily ETP (3BAL)
- Boost TOPIX 2x Leverage Daily ETP (2JAL)

All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.

Important Risks Related to this Article

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