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## sentix Economic Index: The turning of the tide

- Economic indices for the euro zone continue to rise in October. **The overall index for the euro zone climbs to +8.5 points.** Expectations have hit the highest value since December 2015.
- Investors have strongly increased their economic expectations on a selective basis. Especially the sentix indices for **Germany** and **Asia ex. Japan** show a **significant increase** in expectations!
- Latin America's turnaround continues to solidify. Economic Expectations improve to +10.75 points – highest value since January 2014!

### Statistics

Poll running: **06-to 08-October-2016**

Survey participants: **1,000 investors**  
(of those are institutional investors: **261**)

## Current economic regimes\* of countries /regions in focus:

Region / country	Regime	Region / country	Regime
Eurozone	upturn	USA	upturn
Germany	boom	Japan	stabilisation
Switzerland	upturn	Asia ex-Japan	boom
Austria	slight upturn	Latin America	upturn
Eastern Europe	stabilisation	Global Aggregate	upturn

\* The regimes – ranging from recession to boom – are derived from the sentix Economic Indices according to the principle of the “economy clock” (see annotation on penultimate page). They reflect investors’ perceptions of different economies. These perceptions are the basis for investors’ behaviour, i.e. their asset allocation, and are thus relevant for financial markets. They are historically close to actual economic activities but need not necessarily be identical.

## Results for the Eurozone economy: October 2016

Euro area	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	6.2	9.9	1.7	4.2	5.6	8.5
Headline Index						
- Current situation	7.0	9.8	5.5	3.8	4.5	6.3
- Expectations	5.5	10.0	-2.0	4.8	6.8	10.8



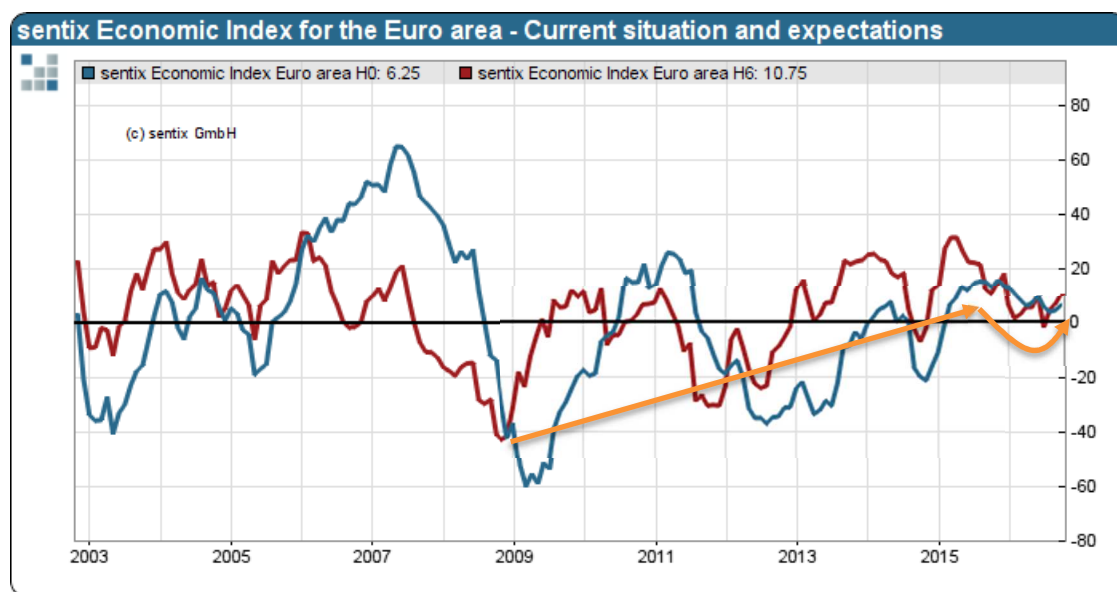
## Commentary on the survey results for October 2016

### The turning of the tide

The October 2016 survey marks an important shift in the sentix indices data. In general, the moderate recovery path of the global economy continues. The economic momentum for the German, Chinese and the Latin American economy certainly marks a bright spot on the global landscape. Although the economic momentum is less dynamic for the euro area, investors remain confident. Besides short-term changes, the sentix Investment Theme Indices reveal significant developments in investors' long-term perceptions on the global economy.

### The Euro area – Step by step

The latest sentix data for the Euro area economy is positive. The headline index rises for the third time in a row to now +8.5 points. Hence, even the Eurozone's economy has according to investors now overcome the "Brexit" induced shock. The index measuring economic expectations rises by +4 points to the highest reading in 2016 (+10.75 points), which is a decent step forward. However, the economy remains just on a moderate recovery path. The following chart illustrates the latest development.

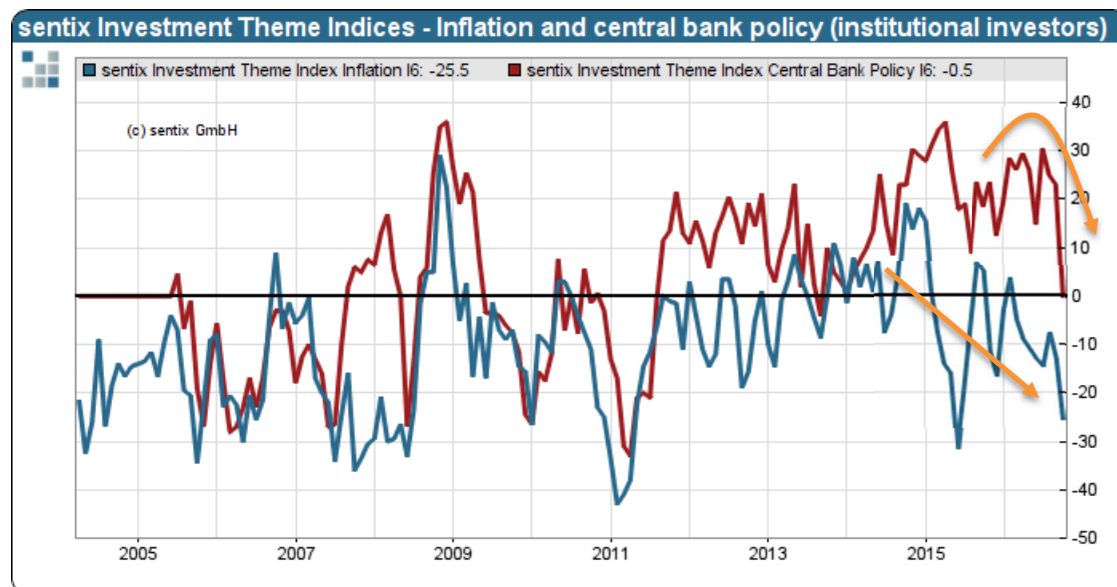


sentix Economic Index for the Eurozone: **current situation** and **expectations**

Despite that the latest turnaround of the indices has yet to prove to be significant, we would like to highlight the recent changes in context to the development since the heights of the financial crisis in 2008/09. Disregarding cyclicity, the trend in both, economic expectations and current situation values, is clearly up. Visually, higher highs and higher lows constitute a positive trend. At least part of the merits undoubtedly should be attributed to monetary policies.

**A turnaround is not only present for investors' expectations and the impression of the current situation** of the economy: Based on an analysis of the sentix Investment Theme Indices, investors' perception of inflation and central bank policy changes in a remarkable way. The sentix Investment Theme Indices measure investors' view on issues affecting economic development such as the momentum of the economy, inflation, central bank policy, fiscal policy and exchange rate developments.

The following chart illustrates the two critical shifts in institutional investors' attitude:



**sentix Investment Theme Indices: Inflation and central bank policy (institutional investors)**

**Both time series highlight dramatic changes in the perception of institutional investors.** Firstly, the investment theme index measuring institutional investors' view on inflation expectations falls to the lowest level since June 2015 (the indicator must be interpreted inversely - the lower the value, the higher the inflation expectations). The surge in crude oil prices over the last weeks is one of the reasons for institutional investors' heightened inflation expectations. Rising oil prices have stimulated investors awareness of base effects, which point towards an increase in inflation over the following months as the crude oil price has regained last year's level after dropping to a decennial low. Oil prices at current levels will boost inflation.

**Changes in inflation expectations are more important than changes of the investment theme index for central bank policy.** The latter drops significantly by 23.5 points to minus 0.5 points. Therefore, professional investors expect a fundamental shift of central bank policy's support to bond markets. The bullish effects are phasing out, which ultimately marks a **turning of the tide**.

Despite that investors have abandoned similar expectations last year; this time is different. **In contrast to the previous year, investors' perceptions are aligned with current economic and inflation outlook.** Investors assess the latest development quite different in comparison to previous recoveries.

## Germany – the economic boom goes on

In the recent months, the sentix economic indices have at any time indicated that the German economy is booming, despite the muted ifo index results. At the end of September, the latest ifo index surprised many market observers positively. The most recent sentix index for October continues in the same fashion. Economic expectations, as well as the assessment of the current situation, surges upwards.

Germany	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	
<b>Overall Index</b>	18.3	20.7	18.4	19.8	19.5	27.7	Highest level since 05.2015
<b>Headline Index</b>							
- Current situation	34.1	34.4	35.2	33.4	34.3	45.5	Highest level since 03.2015
- Expectations	3.5	7.9	2.7	7.0	5.7	11.3	Highest level since 08.2015



## Asia ex. Japan – Supercharged drought horse

The Asian ex. Japan region, dominated by the Chinese economy, continues to improve based on investors' perception. The headline index rises to the highest level since May 2015. The view on the current situation of the Asian economy, as well as on the future path, further improves simultaneously.

Asia ex Japan	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	5.4	9.0	8.2	14.1	16.4	19.7
Headline Index						
- Current situation	4.8	7.5	9.5	15.0	18.0	21.5
- Expectations	6.0	10.5	7.0	13.3	14.8	18.0

## Latin America – on course for a turnaround

In addition to Asia ex. Japan, investors, continue to brighten their perception on Latin America's economy. We testify a significant increase of investors' economic expectations, which have risen to the highest value since January 2014. In the meantime, the headline index, composed of both expectations and current situation values, hit the highest reading since September 2014. Hence the Latin American economy undoubtedly experiences a recovery!

Latin America	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	
Overall Index	-15.7	-18.0	-13.7	-12.5	-9.1	-6.0	Highest value since 09.2014
Headline Index							
- Current situation	-32.8	-36.8	-30.3	-29.3	-23.8	-21.5	Highest value since 07.2015
- Expectations	3.0	3.0	4.5	6.0	6.8	10.8	Highest value since 01.2014



## More tables

USA	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	10.8	17.0	14.3	17.6	16.5	17.8
Headline Index						
- Current situation	21.3	27.8	27.0	29.3	29.3	30.0
- Expectations	0.8	6.8	2.3	6.5	4.5	6.3

Switzerland	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	1.0	7.7	-0.9	3.7	10.8	18.7

Austria	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	-5.3	11.1	4.1	9.4	3.4	6.2

Japan	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	-13.8	-6.2	-8.6	-6.2	-4.8	-1.3
Headline Index						
- Current situation	-19.0	-12.3	-13.0	-12.8	-10.3	-6.8
- Expectations	-8.5	0.0	-4.0	0.5	0.8	4.3

Eastern Europe	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	-7.8	-5.5	-7.3	-5.0	-2.9	-1.6

Global Aggregate	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
Overall Index	2.6	6.7	4.3	7.9	9.1	11.6
Headline Index						
- Current situation	2.7	6.1	6.2	8.4	10.3	12.5
- Expectations	2.6	7.3	2.4	7.4	7.9	10.7



## Data availability

**Bloomberg**

**FACTSET**



**Macrobond**



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**sentix**   
expertise in behavioral finance

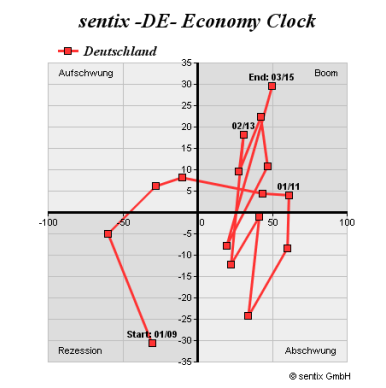
## About sentix

The sentix GmbH is an independent research institute based in Frankfurt/Main, Germany. Founded in 2001, sentix provides analysts and investors, as well as the media and officials, with information about investors' preferences and their estimates and expectations about markets and economic trends.

Sentix is recognised in the industry as one of the leading experts in market sentiment and Behavioral Finance data. Among our clients are big fund managements groups as well as banks and independent fiduciaries. The data products are derived from the sentix Global Investor survey, to which more than 5.000 investors from 20+ countries contribute.

## Background, methodology and more

See <http://economics.sentix.de>



## The idea of the „economy clock“

The sentix economy clock shows the assessment of the current situation and investors' 6-month expectations in an x-y diagram. The evaluation of the current situation is displayed on the x-axis and 6-month expectations on the y-axis. An upturn, for instance, is characterised by still negative readings for the assessment of the current situation but already positive values for investors' expectations. This is why the upturn area lies in the upper left part of the clock. The graph on the left-hand side shows Germany starting in 2009 from a recession ending in 03/15 in a boom.



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