Stock Market Review

# A review of 2012

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2012 was again a very volatile year across most international financial markets although both shares as well as bonds in Malta and also internationally generally performed positively.

The MSE Share Index measuring the performance of equities listed in Malta once again underperformed international markets. However, there were some major outperformers during the year. Although the MSE Share Index (which is very much dependent on the performances of HSBC Bank Malta plc, Bank of Valletta plc and International Hotel Investments plc) ended the year with a gain of a mere 3.8 per cent, the share prices of Crimsonwing plc, Simonds Farsons Cisk plc, RS2 Software plc and GO plc advanced significantly during 2012.

The local equity market experienced a particularly negative Q1 with a drop of five per cent but has since registered three successive positive quarters reflecting a clear improvement in investor sentiment and an increased responsiveness to company newsflow. During the second half of the year, a number of companies reported improved financials for H1 and new international contracts were awarded to the IT companies leading to a more positive outlook.

Trading activity across the equity market was sharply lower during the downturn in the first three months of the year, however although volumes increased during each of the following three quarters of 2012, equity trading still registered a 10.6 per cent decline over 2011. In fact, total equity market volume of €33.5 million is still significantly lower compared to the levels seen in 2008 and prior years. Malita Investments plc was the only new addition to the list of publicly traded equities following its €15 million IPO during the summer.

Crimsonwing was by far the star performer with an appreciation of 96 per cent over the past 12 months. The recovery in Crimsonwing shares is more pronounced when one considers that the equity rallied by over 206 per cent from its low of €0.16 in February. Shareholders of Simonds Farsons Cisk plc also have lots to cheer about as the equity climbed by 38.9 per cent closing the year at an all-time high of €2.50. RS2 Software was the best performer in 2011 with an increase of 25 per cent and the equity of this global IT company was again among the top performers of 2012 with a further uplift of 31 per cent to €0.74. Go plc which was the worst performer in 2011 with a drop of 49.4 per cent experienced a particularly volatile 2012. The downward trend experienced in 2011 continued in Q1 of 2012 with a further decline of 14.4 per cent. However, Go shares rebounded strongly in Q2 (+40 per cent) dropping back during the summer months and staging a strong recovery during the final three months of the year to close with an overall rise of 21 per cent to €1.19 for the full year.

The two major banking equities both performed positively with BoV closing the year up 8.7 per cent at €2.415 and HSBC edging 4.7 per cent higher at €2.70. The share price of Malta International Airport plc rose for the third successive year. During 2012, the equity of the airport operator advanced by a further 6.5 per cent to its 2012 high of €1.80. The equity is only four per cent below its record level of €1.875 registered in November 2005.

On the other hand, four companies closed the year with double-digit losses. The worst performing equity during 2012 was Lombard Bank Malta plc with a share price decline of 31 per cent followed by Midi plc which suffered a 27.6 per cent drop to €0.275. Lombard's subsidiary MaltaPost plc closed the year with a decline of 15 per cent despite a strong recovery during Q4 with a share price increase of 21.4 per cent as the company reported better-than-expected results and an unchanged dividend. GlobalCapital plc again ranked among the worst performers with a decline of a further 20 per cent. An article analysing the factors behind the weak performances in these equities will be published in the coming weeks.

Local bonds also performed positively during 2012. The Rizzo Farrugia MGS Index which tracks the movements across the local Malta Government bond market advanced by 1.7 per cent during 2012 and touched a fresh 25-month high of 1,005.379 points during the last trading session of the year. The positive performance of the Rizzo Farrugia MGS Index reflects the upward movement in Malta Government Stock prices with many of the longer-dated MGSs closing the year at fresh record levels following the decline in eurozone benchmark yields. In fact, German yields dropped by 50 basis points during the year from 1.827 per cent towards a level of 1.30 per cent after touching a record low of 1.127 per cent in July.

Many local corporate bonds also increased in value generally as a result of the continued significant demand for fixed-interest instruments and the lack of new bond issuance on the primary market. Across the eurozone, the focus was on the Spanish and Italian bond markets as both countries grappled with their high debts and refinancing obligations during the year. Yields on Italian and Spanish bonds peaked initially but fell back sharply as the European Central Bank pledged its support in July to do "whatever it takes" to defend the euro. Greek bonds almost doubled in price in 2012, making them the best performers among 144 debt instruments tracked by Bloomberg mainly as a result of the recent upgrade to the country's rating by Standard & Poor's. Earlier on in the year, Greece arranged the largest sovereign-debt restructuring exercise in history with 'haircuts' of up to 65 per cent on nominal values.

International equity markets were particularly volatile on the back of the eurozone debt crisis, political developments in various parts of the world including the US and the fiscal cliff in the US in recent weeks.

A major turning point for equity markets was in September when the European Central Bank committed to buy eurozone government bonds to shore up the currency bloc in order to restore confidence across financial markets. This helped improve investor sentiment leading to a strong recovery across most equity markets during the second half of the year.

The Japanese Nikkei index closed the year at its highest level since March 2011 as the new Japanese prime minister's pledge to battle deflation and a strong currency buoyed investor risk appetite. Since the change in the country's leadership, the stock market in Tokyo climbed by over 19 per cent over the past six weeks resulting in the best annual gain for the equity market since 2005. This end-of-year rally helped the Nikkei to close 2012 with an appreciation of 23 per cent, outpacing gains registered in both US markets (+11.5 per cent for the S&P 500 and +5.9 per cent for the Dow Jones Industrial Average) as well as a benchmark for pan-European markets. However, the best performing market was Germany's DAX which rose by 29 per cent during the past 12 months. The UK's FTSE 100 was among the weaker performers of 2012 with a rise of 6.3 per cent. However, during the final trading sessions of the year, the FTSE 100 touched a 17-month high of just under 6,000 points.

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In terms of individual equities, one of the most talked about companies was undoubtedly Apple Inc in view of its dominance across the technology world. It is worth mentioning that the 27 per cent share price decline since the record high of $705 on 19 September left a strong impact on the Nasdaq market which was the worst performer during Q4 in view of the high percentage allocation of Apple within this benchmark. Notwithstanding the decline, Apple shares still ended the year with a rise of over 25 per cent and Nasdaq was among the positive performers for 2012 with an increase of almost 13.6 per cent.

Few stockmarket followers may be aware that the best performing equity across the major financial markets was United Spirits, India's largest distiller, with a share price appreciation of over 280 per cent as the company's sales doubled in the past four years helped by the world's largest consumption of whisky. Diageo of the UK bought a controlling stake in United Spirits in November. In the US, the best performer was Regeneron Pharmaceuticals with a rise of over 220 per cent.

On the other hand, Spain's Bankia ranks among the worst performing equities. The bank, formed in 2011 from the merger of seven regional savings banks damaged by Spain's real estate downturn, is in the midst of reducing more than a quarter of its workforce. Retail shareholders who invested in Bankia when it was floated in 2011 will have their stakes virtually wiped out when the bank is recapitalised shortly. In the US, the worst performer during 2012 was Hewlett-Packard with a decline of over 40 per cent as the company recently recognised a $8 billion writedown of its enterprise services business and a similar impairment as a result of accounting irregularities at its recently-acquired UK software maker Autonomy.

In the foreign exchange markets, the euro had a particularly volatile year against both the US dollar and Sterling reflecting the developments across the eurozone. The euro gained particularly during the latter part of the year and ended the year with a two per cent gain against the US dollar but weakened by one per cent against sterling. Elsewhere, the Japanese yen dropped against the dollar to a level last seen in August 2010. The yen was the worst-performing among the major currencies in 2012.

In the commodity market, gold rose for the 12th successive year and is up by over six per cent during 2012. Gold peaked at $1,921.15 per ounce in September 2011 and has fallen by 13 per cent over the past 15 months. The best performing precious metal in 2012 was platinum with an increase of 9.8 per cent. Meanwhile, the price of oil edged marginally higher after a strong recovery in the summer months. Across the wider commodity market, wheat was the best performer with a rise of 24 per cent while the price of coffee dropped by 35 per cent ranking as the worst performing commodity on abundant supply mainly from Brazil – the world's largest grower.

Next week's article will be dedicated to an outlook for 2013.

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