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Newsflash

A new month and the 86th issue of Viewpoint from **Financial Partners**.

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Market Commentary

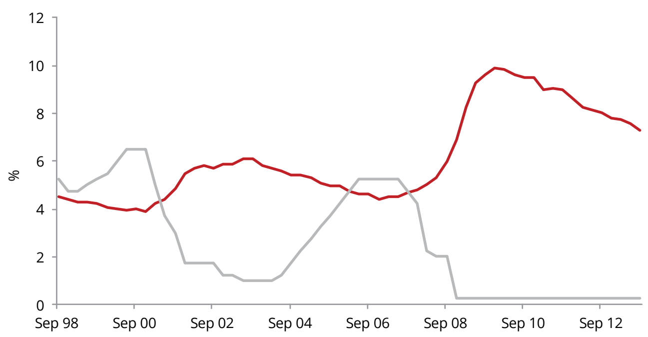
In November markets continued to be dominated by events in the US, with short term sentiment heavily influenced by data and comments from the Federal Reserve, all of which are presumed to have a subtext indicating the timing of the tapering decision. When will the Fed taper and by how much remain the key focal points for investors.

Early in the month strong payrolls numbers prompted fears that tapering could start as early as December; payrolls showed job creation of 204,000 in October, far ahead of market expectations and despite the negative impact caused by the US government shutdown. Meanwhile payrolls for the previous two months were revised up by 60,000. Third quarter GDP numbers then surprised on the upside, with a preliminary growth estimate of 2.8% versus 2% expected, which has recently been revised upwards further to 3.6%. There was some concern about the durability of this growth rate as inventories added 0.8% in the quarter (raising fears over unsold goods); nevertheless investors became more anxious that the Fed would taper sooner rather than later. This pushed interest rates on bonds higher and led to sharp falls in markets at most risk from reduced global liquidity, notably emerging markets (EM) equities and gold.

Investors were reassured later in the month by Janet Yellen's comments at her Senate nomination hearing, where the Fed Chairman nominee said that the economy is performing far short of it's potential, inflation is below target and unemployment is too high. She noted there was no set time for tapering and it was imperative for the Fed to help boost employment, while seeing no evidence of broad based asset price misalignments - Fed speak for "asset bubbles". All of this reassured investors that she would be slow to end quantitative easing.

What also became clear during the month is that the Fed is wrestling with the idea of strengthening forward guidance at the same time as tapering, to try to avoid any inadvertent tightening of monetary policy. There was discussion about lowering the threshold for the unemployment rate from 6.5% to 6 or below, before an interest rate rise will be considered, thereby distancing interest rate rises from any tapering decision.

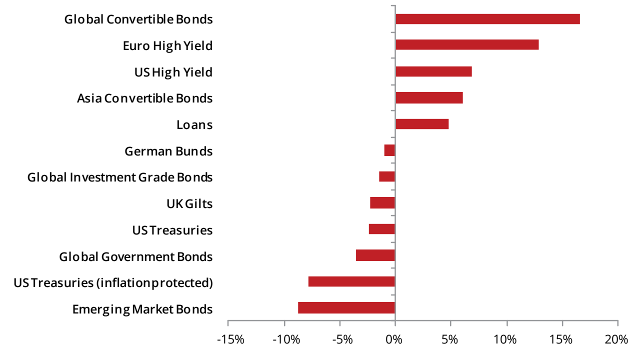
Figure 1: US unemployment and interest rates



Source: Bloomberg

The net effect of all of this was a more subdued month for markets, in particular bonds and liquidity dependent asset classes. US Treasuries returned -0.4% compared to -1.1% for global government bonds; meanwhile credit and high yield performed somewhat better, while nonetheless held back to some degree by the upward move in rates on government bonds. High yield and convertible bonds were the best performing fixed income sectors over the month, with returns of 0.5% and 1.0% respectively. Emerging market bonds on the other hand were the weakest at -2.5%.

Figure 2: YTD Fixed income returns (in US dollar terms)



Source: Bloomberg

In equities the pattern of developed market (DM) outperformance that we have seen for most of this year returned. EM equities lost part of the ground made up in the previous month, falling by 1.5%, with notable weakness in certain Asian markets. Indonesia fell by 9.6% in the month in US dollar terms, with both the equity market and currency weak; Thailand and India also fell sharply. Indonesia has become a focal point for investors in Asia when fears begin to rise. DM in contrast held up well, especially the US which returned 3.0%, although Japan was the standout performer - after a period of consolidation the market gained 5.4%, although returns were held back in dollar terms by a 4.0% fall in the value of the yen (itself a factor in pushing equities higher). Gold fell by 5.3% as fears of tapering hit the market again, and the price is now getting close to the lows reached earlier this year in its initial big sell off, as the 12 year gold bull market came to an end. Also notably weak were global property securities (-3.5%), again as a result of reduced liquidity and higher bond interest rates.

In other important news the European Central Bank surprised markets by cutting interest rates to 0.25% in a sign that the central bank is getting increasingly worried about deflationary forces at work across the eurozone. This decision followed shortly after the inflation numbers for the eurozone surprised dramatically, with a fall to only 0.7%, while some big economies saw aggregate price levels fall. GDP numbers for Q3 also disappointed, with growth of only 0.1%, and France and Italy saw negative growth of -0.1%, giving rise to concerns about the sustainability of the very modest pickup in eurozone growth seen in Q2. In contrast the UK, not shackled by a fixed currency regime and with a considerably more flexible economy than that across Europe, showed signs of a more sustainable recovery and higher growth. This prompted a rise in sterling, up 2.1% against a generally strong US dollar.

The big news in Asia was the outcome of China's Third Plenum, which sets policy agenda for the recently installed leadership. A far reaching reform package was introduced, including liberalisation of money markets and financial institutions, the opening up of industries and reform of State Owned Enterprises, amongst other measures. The reforms were seen as the most profound for at least the past decade, although effective implementation will be a concern. Markets in China reacted well to the news with the Shanghai Stock Exchange adding 3.7% in US dollar terms over the month.

On the geopolitical front there was finally some good news as Iran agreed to a deal to curb its nuclear ambitions in return for sanctions relief thought to be worth around USD 7 billion. Although this is an interim measure there is a strong likelihood that a permanent solution will be found within the next 12 months. Oil prices came under pressure as the prospect of a resumption of full Iranian exports boosted supply forecasts - Iranian oil would add some 1.8 million barrels per day to global supply.

Central banks have dominated the news flow and the direction of markets for some time and this seems set to continue in coming months. In particular the timing of the Fed's decision to begin tapering its asset purchase programme and the pace of this action will be a major factor driving markets. It is evident that the Fed is keen to start to taper and to begin the process of returning to more normal monetary conditions; but equally the Fed is anxious to avoid halting the economic recovery before it reaches 'escape velocity'. Given the headwinds to growth - namely debt, fiscal imbalances and structural challenges in the emerging world - we have maintained the view for a long time that ultra loose monetary policy will continue well beyond the market's current expectations. There are still too many economic risks for the Fed and other central banks to rein in policy too soon. Rather, risks will be taken on the side of keeping policy looser for longer, especially as inflation remains subdued and expectations well anchored. While the prospect of Fed tapering and the US debt ceiling and budget negotiations to come in the new year will keep investors somewhat more nervous in the months ahead, it is important to remember that the reason for tapering will be an improving economy, which bodes well for the corporate sector.

Source: Bloomberg. Returns in US dollars unless otherwise stated. November 2013.

Market Performance

Asset Class/Region	Index	To 29 November 2013		
		Currency	Month	Year to date
Developed markets equities				
United States	S&P 500 NR	USD	3.00%	28.40%
United Kingdom	MSCI UK NR	GBP	-0.90%	16.60%
Continental Europe	MSCI Europe ex UK NR	EUR	1.10%	21.20%
Japan	Topix TR	JPY	5.40%	49.0%*
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-2.80%	6.90%
Global	MSCI World NR	USD	1.80%	24.10%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-3.70%	-1.90%
Emerging Asia	MSCI EM Asia NR	USD	0.20%	3.30%
Emerging Latin America	MSCI EM Latin America NR	USD	-4.40%	-11.20%
BRICs	MSCI BRIC NR	USD	-0.90%	-1.50%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.50%	-1.20%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.40%	-2.30%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.20%	-7.90%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.20%	-1.40%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.50%	6.90%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.90%	-2.90%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.80%	1.70%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.30%	2.80%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.20%	2.80%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.20%	12.90%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.10%	2.80%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.40%	-0.50%
Global Government Bonds	JP Morgan Global GBI	USD	-1.10%	-3.50%
Global Bonds Citigroup	World Broad Investment Grade(WBIG) TR	USD	-0.70%	-1.50%
Global Convertible Bonds	UBS Global Convertible Bond USD	USD	1.00%	16.50%
Emerging Market Bonds	JP Morgan EMBI+	USD	-2.5%*	-8.8%*

** estimate*

Source: Bloomberg

Market Performance

Asset Class/Region	Index	To 29 November 2013		
		Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	USD	-5.30%	1.20%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-1.30%	21.80%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-0.20%	6.80%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-2.80%	4.40%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-1.40%	7.20%
Global Property Securities	S&P Global Property USD TR	USD	-3.50%	4.10%
Currencies				
Euro		USD	0.10%	3.00%
US Dollar		USD	2.10%	0.70%
Japanese Yen		USD	-4.00%	-15.3
UK Property Securities		USD	-3.70%	-12.40%
UK Property Securities		USD	-1.30%	-16.80%
Commodities & Alternatives				
Commodities	RICI TR	USD	-1.10%	-6.00%
Agricultural Commodities	RICI Agriculture TR	USD	0.70%	-9.70%
Oill	CE Crude Oil CR	USD	1.50%	0.40%
Gold	Gold Spot	USD	-5.30%	-25.20%
Hedge funds	HFRX Global Hedge Fund	USD	0.60%	6.10%
Interest Rates			**Current rate**	**Change at meeting**
United Kingdom	30 October, 2013	USD	0.25%	-
United States	7 November, 2013	GBP	0.50%	-
Eurozone	7 November, 2013	EUR	0.50%	-
Japan	21 November, 2013	JPY	0.10%	-
Australia	5 November, 2013	AUD	2.50%	-
South Africa	21 November, 2013	ZAR	5.00%	-

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Asset Allocation Dashboard

Positive Neutral Negative

Asset class	View
Equities	
Developed equities	Neutral
UK equities (relative to developed)	Neutral
European equities (relative to developed)	Neutral
US equities (relative to developed)	Negative
Japan equities (relative to developed)	Neutral
Emerging market equities	Positive
Fixed Income	
Government	Negative
Index-linked (relative to government)	Negative
Investment grade (relative to government)	Positive
High yield	Neutral
Loans	Positive
Emerging market debt	Positive
Convertible bonds	Neutral
Alternatives	
Commodities	Neutral
Hedge funds	Neutral
Property (UK)	Neutral
Currencies	
Dollar	Neutral
Euro	Negative
Yen	Negative
Emerging market currencies	Neutral

Source: Momentum Global Investment Management November 2013

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