



# Weekly Digest

Week ending **3 January 2016**

2016 looks set to be a year of challenges and competing concerns for global investors. Towards the end of last year we saw the first US Federal Reserve (Fed) rate hike since 2006 and this paves the way for a genuinely divergent interest rate policy between major global central banks for the first time since the global financial crisis. We have noted before that we expect the Fed to be circumspect in its policy tightening and there is no new news that suggests the need to move away from this cautious approach. As a result we do not think that the policy differences between the US, Europe and Japan will be a key cause of risk in 2016 because the policy differentials will not be extreme. The good news underlying the Fed's policy is that the US consumer feels good about life and is starting to see real wage growth which should feed activity further.

Despite the UK's performance last year, we are nearly seven years into the post financial crisis bull market in global equities. Valuations remain reasonable in major markets and actually pretty interesting in select markets and sectors, but returns in developed markets will be increasingly reliant on profit growth from here. The continued concerns over the Emerging Market (EM) economic outlook are rational in one sense but such have been the moves down in EM assets that there will be a time soon when valuations are sufficiently attractive that they can be bought almost irrespective of the economic outcome. So the valuation differential between emerging and developed markets presents a second divergence for investors to seek to exploit in the coming year.

Politics will also be an important factor in the coming year. In the US we will see a Presidential Election and Europe will be buffeted by concerns over a possible Brexit and its implications both for the UK and for Europe as a whole. On the positive side, Europe appears to be on the mend and remains a much more stable proposition now that last year's Grexit issues are buried. While the UK appears closer to a rate hike than the continent, the market's sensitivity to resource prices hampered the index last year and the Bank of England will tread carefully to avoid being the source of further UK market weakness. Geopolitical risks remain in the Middle East with a recent flare up of tensions between Saudi Arabia and Iran proving a salutary reminder that risks in the region do not only come from non-state actors.

Finally, the credit cycle is starting to feel a bit long in the tooth. While we think that 2016 will be a good year for global credit strategies it is clear that we are nearer the end of the cycle than the start. Nevertheless the rewards available for holding a variety of credit assets today are very attractive in a year that seems poised to be a low - but positive - returns environment. Nimbleness, focus and sensible risk controls will be key factors this year.



## The Marketplace

- China's manufacturing activity contracts
- Chinese equities tumble
- People's Bank of China reduces currency reference rate
- Tensions rise between Saudi Arabia and Iran
- Brent crude rises after touching 11-year lows

## Market Focus

### Global

- Political risk and disappointing Chinese indicators are putting pressure on risk assets and boosting 'safe-haven' investments such as US Treasuries and gold, at the time of writing (Monday the 4th January 2016).

### China

- In China, the Caixin Manufacturing Purchasing Managers' Index (PMI) number fell from 48.6 in November to 48.2 in December (a number below 50 indicates activity contracting). A rise to 48.9 had been expected.
- The CSI 300 index fell by more than 7% triggering an automatic suspension of trading in Shanghai and Shenzhen for the remainder of the day.
- The People's Bank of China reduced the reference rate for the renminbi once again, lowering it by 0.2% against the US dollar.

## Commodities

- Tension in the Middle East caused the price of oil to rise at the time of writing (Monday the 4th January 2016), as Saudi Arabia cut all diplomatic ties with Iran, following a violent protest at the Saudi embassy in Tehran. Saudi Arabia executed a prominent Shia cleric over the weekend, much to the dismay of Iran and the international community.

*James Klempster, CFA & Scott Gordon*

Asset Class/Region	Currency	Currency returns			
		Week ending 31 Dec. 2015	Month to date	YTD 2015	12 months
<b>Developed Market Equities</b>					
United States	USD	-0.8%	-1.6%	0.7%	0.7%
United Kingdom	GBP	-0.3%	-1.9%	-2.2%	-2.2%
Continental Europe	EUR	0.0%	-4.7%	10.7%	10.7%
Japan	JPY	1.7%	-1.9%	12.1%	12.1%
Asia Pacific (ex Japan)	USD	-0.1%	0.3%	-9.4%	-9.4%
Australia	AUD	1.9%	2.7%	2.6%	2.6%
Global	USD	-0.6%	-1.8%	-0.9%	-0.9%
<b>Emerging Market Equities</b>					
Emerging Europe	USD	-2.4%	-6.6%	-14.7%	-14.7%
Emerging Asia	USD	-0.7%	-0.7%	-9.8%	-9.8%
Emerging Latin America	USD	-1.6%	-4.3%	-31.0%	-31.0%
BRICs	USD	-1.1%	-1.8%	-13.5%	-13.5%
MENA countries	USD	0.4%	-1.2%	-14.3%	-14.3%
South Africa	USD	-3.5%	-10.5%	-25.5%	-25.5%
India	USD	0.8%	0.6%	-7.4%	-7.4%
Global emerging markets	USD	-1.1%	-2.2%	-14.9%	-14.9%
<b>Bonds</b>					
US Treasuries	USD	-0.2%	-0.1%	0.9%	0.9%
US Treasuries (inflation protected)	USD	0.0%	-0.9%	-1.7%	-1.7%
US Corporate (investment grade)	USD	0.0%	-0.8%	-0.7%	-0.7%
US High Yield	USD	0.4%	-2.5%	-4.4%	-4.4%
UK Gilts	GBP	-0.4%	-1.1%	1.2%	1.2%
UK Corporate (investment grade)	GBP	-0.1%	-0.7%	0.7%	0.7%
Euro Government Bonds	EUR	0.2%	-1.0%	1.7%	1.7%
Euro Corporate (investment grade)	EUR	0.1%	-0.8%	-0.6%	-0.6%
Euro High Yield	EUR	-0.5%	-2.0%	1.0%	1.0%
Japanese Government	JPY	0.1%	0.8%	1.3%	1.3%
Australian Government	AUD	-0.1%	0.4%	2.5%	2.5%
Global Government Bonds	USD	-0.4%	0.8%	-2.6%	-2.6%
Global Bonds	USD	-0.3%	0.6%	-3.2%	-3.2%
Global Convertible Bonds	USD	-0.2%	-0.4%	-0.2%	-0.2%
Emerging Market Bonds	USD	0.1%	-1.3%	1.8%	1.8%

\* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 31 Dec. 2015	Month to date	YTD 2015	12 months
<b>Property</b>					
US Property Securities	USD	0.3%	1.6%	1.3%	1.3%
Australian Property Securities	AUD	-1.0%	2.4%	8.9%	8.9%
Asia Property Securities	USD	-0.1%	1.3%	1.5%	1.5%
Global Property Securities	USD	0.1%	1.2%	0.1%	0.1%
<b>Currencies</b>					
Euro	USD	-1.0%	2.8%	-10.3%	-10.3%
UK Pound Sterling	USD	-1.2%	-2.1%	-5.4%	-5.4%
Japanese Yen	USD	0.1%	2.4%	-0.5%	-0.5%
Australian Dollar	USD	0.4%	0.8%	-10.8%	-10.8%
South African Rand	USD	-1.3%	-6.6%	-25.2%	-25.2%
Swiss Franc	USD	-1.5%	2.6%	-0.8%	-0.8%
Chinese Yuan	USD	-0.2%	-1.5%	-4.4%	-4.4%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	-0.3%	-4.6%	-26.1%	-26.1%
Agricultural Commodities	USD	-0.5%	-0.2%	-14.6%	-14.6%
Oil	USD	-1.6%	-16.4%	-35.0%	-35.0%
Gold	USD	-1.4%	-0.3%	-10.4%	-10.4%
Hedge funds	USD	0.0%	-1.2%	-3.5%	-3.5%

\* Estimate

Source: Bloomberg

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