FP FINANCIAL PARTNERS

momentum

Weekly Digest

Week ending **5 July 2015**

On Sunday the people of Greece voted 'No' in their referendum on the proposed terms offered by creditors. While the decision had appeared close all week, the final result of the referendum was fairly stark with a turnout of over 60%, 61.3% voted against the bailout terms. The Greek Finance Minister, Yanis Varoufakis, appears to have been a casualty of the Prime Minister's need to curry favour with creditors as discussions on how to move forward looks poised to begin all over again. Europe has proven itself to be the master of the 'muddle-through' over the past few years, but rescuing this situation is going to require some first rate political manoeuvring; balancing the desire to keep the majority of the bloc content whilst keeping Greece in the Euro.
Plenty of analysis has been dedicated to Greece of late and as a result, there is no need to add to it here. What I would like to focus on are the opportunities being offered by this crisis of confidence in the euro area. The uncertainty surrounding the region has led to meaningful falls in 'risk' assets such as equity and the lower end of the credit spectrum. The moves in the equity markets are proving particularly interesting at the moment.

The fact that Greece is edging ever closer to exiting the euro area (and the bigger structural question that such an event would pose) hangs over the region's stocks like the sword of Damocles. But the fact that Greece may or may not leave the common currency does not suddenly make good European companies bad ones. Yet the European equity markets have been weak of late as a result of Greece's woes. In fact, since the middle of April the Eurostoxx 50 is off by nearly 12% despite having no Greek companies in it. Furthermore, given how small Greece is as a fraction of European GDP, the moves are clearly not reflecting the quantum of the impact that Greece's woes are having on corporate earnings. Additionally, the banking system is relatively well insulated from Greek debt today, so stocks are not reflecting large asset write-downs either.

As a result, this move in the European markets looks largely driven by sentiment. It is clear there is some uncertainty over the euro area presently, but the magnitude of the moves is, to valuation driven investors such as Momentum, something of a gift. We have added to our European equity exposure in recent weeks, and we would be seeking to add to this position on further weakness. Clearly Europe is not a riskless trade, but the valuation discounts available here are sufficient to justify an allocation: the bearish sentiment surrounding Europe may yet prove to be a gift for long term investors.

The **Marketplace**

- Greek uncertainty weighs on markets
- Unexpectedly large 'No' vote in Greek referendum
- Yanis Varoufakis resigns amid pressure from European leaders
- Chinese authorities intervene in tumbling equity market
- US jobs and wage data disappoints

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

Market **Focus**

Global

- Global equities fell by 1.8% last week as Greece's position in the euro area continues to unsettle markets. European equities fell by 3.7% in euro terms and the US market ended the week having fallen 1.1%.
- US treasuries added 0.5%, while UK gilts returned 1.3% in sterling terms. US high yield bonds fell by 0.2% while European high yield bonds declined by 0.6% in euro terms.

US

- In the US, the latest payrolls print disappointed modestly reading 223,000 versus expectations of 225,000. There were also downward revisions to May and April's numbers, summing up to 60,000. Average hourly earnings were flat in June, also disappointing slightly against expectations of a 0.2% increase.
- The Chicago-ISM Business Barometer data also disappointed on the downside, despite rising 3.2 points in June. It printed 49.4, versus expectations of 50.0. This is the second consecutive month with the figure below 50, indicating a contraction in activity.

Europe

- Greeks delivered a resounding 'No' in their referendum on the latest bailout deal on Sunday. The magnitude of the 'No' vote was unexpected, with 61.3% of voters rejecting the latest conditions set out by Greece's creditors.
- Greek Finance Minister, Yanis Varoufakis, resigned on the morning after the ballot. The move is seen as conciliatory by the Greek government.
- A critical 24 hours lay ahead as European political leaders meet to discuss their next move, and the European Central Bank (ECB) considers the parameters of its emergency lending programme to Greek banks. The BBC reported over the weekend that Greek banks may only have a couple of days left before they run out of cash.

China

- China's equity market opened up 7.8% this morning (06 July), as authorities intervene in a market that has fallen circa 30% in three weeks. Most of the returns were pared back, however, with the Shanghai Composite eventually closing at +2.4% in renminbi terms.
- The Chinese central bank is to provide additional liquidity to markets by increasing the availability of margin financing. Planned IPOs have been halted (decreasing supply in the market) while domestic fund managers are committing to hold on to stock for longer, according to the Asset Management Association of China. Finally, brokerages have also agreed to commit 120 billion renminbi ($19 billion) to a 'stabilisation' fund.

Commodities

- Brent crude fell by 4.6% as volatility in the commodity market continues. Gold fell by 0.6%.

James Klempster, CFA & Scott Gordon

FP FINANCIAL PARTNERS

momentum

Weekly Digest

Week ending **5 July 2015**

Asset Class/Region	Currency	Currency returns			
		Week ending 3 July 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-1.1%	0.7%	1.6%	6.1%
United Kingdom	GBP	-2.5%	1.0%	2.1%	-1.1%
Continental Europe	EUR	-3.7%	0.6%	14.3%	12.5%
Japan	JPY	-0.9%	1.3%	18.5%	31.6%
Asia Pacific (ex Japan)	USD	-1.3%	-0.5%	2.9%	-2.5%
Australia	AUD	-0.1%	1.5%	4.6%	5.3%
Global	USD	-1.8%	0.5%	3.2%	0.8%
Emerging Market Equities					
Emerging Europe	USD	-2.0%	-1.4%	4.8%	-27.4%
Emerging Asia	USD	-1.3%	-0.5%	4.5%	1.1%
Emerging Latin America	USD	-2.2%	-1.1%	-7.4%	-24.9%
BRICs	USD	-2.2%	-1.4%	6.7%	-2.5%
MENA countries	USD	-1.2%	0.3%	4.4%	-5.5%
South Africa	USD	-0.7%	-1.3%	1.2%	-2.6%
India	USD	1.5%	1.7%	2.8%	4.5%
Global emerging markets	USD	-1.4%	-0.8%	2.2%	-7.0%
Bonds					
US Treasuries	USD	0.5%	-0.3%	-0.4%	3.1%
US Treasuries (inflation protected)	USD	0.6%	-0.2%	-0.1%	-1.0%
US Corporate (investment grade)	USD	0.5%	-0.2%	-1.1%	1.4%
US High Yield	USD	-0.2%	0.3%	2.8%	-0.2%
UK Gilts	GBP	1.3%	0.0%	-0.8%	9.9%
UK Corporate (investment grade)	GBP	0.7%	0.2%	-0.6%	7.3%
Euro Government Bonds	EUR	0.0%	-0.1%	-1.4%	4.4%
Euro Corporate (investment grade)	EUR	0.2%	0.1%	-1.5%	2.0%
Euro High Yield	EUR	-0.6%	0.4%	1.7%	2.0%
Japanese Government	JPY	-0.1%	-0.3%	-1.0%	2.1%
Australian Government	AUD	0.1%	-0.2%	0.0%	6.0%
Global Government Bonds	USD	0.3%	-0.5%	-3.9%	-7.2%
Global Bonds	USD	0.2%	-0.4%	-3.8%	-6.8%
Global Convertible Bonds	USD	-1.1%	-0.1%	1.4%	-5.0%
Emerging Market Bonds	USD	0.2%	0.4%	1.4%	-1.5%

* Estimate

Source: Bloomberg

FP FINANCIAL PARTNERS

momentum

Asset Class/Region	Currency	Currency returns			
		Week ending 3 July 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	0.3%	1.9%	-5.0%	4.9%
Australian Property Securities	AUD	-0.3%	1.2%	5.4%	16.0%
Asia Property Securities	USD	-1.0%	-0.2%	10.1%	6.4%
Global Property Securities	USD	-0.8%	0.5%	-0.3%	1.6%
Currencies					
Euro	USD	-0.5%	-0.3%	-8.1%	-18.3%
UK Pound Sterling	USD	-1.1%	-0.9%	0.0%	-9.2%
Japanese Yen	USD	0.8%	-0.3%	-2.6%	-16.9%
Australian Dollar	USD	-1.8%	-2.5%	-8.0%	-19.6%
South African Rand	USD	-1.0%	-1.2%	-6.1%	-12.7%
Swiss Franc	USD	-0.8%	-0.5%	5.7%	-5.4%
Chinese Yuan	USD	0.1%	0.1%	0.0%	0.2%
Commodities & Alternatives					
Commodities	USD	0.0%	-1.1%	-2.0%	-27.6%
Agricultural Commodities	USD	2.7%	-0.6%	-1.5%	-10.9%
Oil	USD	-4.6%	-5.1%	5.2%	-45.7%
Gold	USD	-0.6%	-0.3%	-1.4%	-11.6%
Hedge funds	USD	-0.9%	0.1%	1.4%	-1.5%

* Estimate

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

Important notes