



Weekly Digest

Week ending **6 March 2016**

This week guest contributor Scott Gordon, a Momentum Investment analyst, provides his insight on the markets.

Remembering Ray Tomlinson

Ray Tomlinson, the person credited with the creation of e-mail, died on March 5th aged 74. In 1971 Tomlinson was working as a programmer on ARPANET (the precursor to the internet, and an internal communication tool for the US military), and spurred by his personal desire to improve communication across the network, created e-mail. At the time, messages sent on ARPANET ultimately involved printing out the text and placing a hard copy into a box (literally, a mail-box). Tomlinson created a programme that allowed users to communicate across computers; it worked in a remarkably similar fashion to the systems we use today.

Since the first e-mail was sent, the internet has become a formidable institution, and perhaps Mr Tomlinson's passing could be considered as the end of the beginning of the digital revolution. It serves to remind us of how important digitisation has become. According to the McKinsey Global Institute, cross-border flows of data added \$2.8 trillion to global GDP in 2014, and in doing so made more of an impact than the flows of finance and physical goods (where growth has stagnated since the global financial crisis). If shipping barges powering through the Panama Canal are a symbol of 20th century trade, then a tablet-wielding entrepreneur in Silicon Valley - selling goods on Alibaba - might be how to picture trade in the 21st century.

This is not to say that we should not place as much importance on the Baltic Dry Index or China's latest manufacturing numbers; we should. However, as nations seemingly struggle with productivity and growth, the opportunity set available through facilitating the next phase of digitisation is substantial. And its impact today should not be underestimated.

The proliferation of tech start-ups is a prime example of how important data flows have become. Digitisation has generated what The Economist has dubbed a 'Cambrian moment' for start-ups, comparing the explosion in digital enterprises to a time 540 million years ago when Earth suddenly saw simple life-forms evolve into complex, varied organisms. Today, tech start-ups are often by default global companies, as they will likely rely on services (and servers) from abroad, no matter where they are based. Indeed, the ease of which they are able to do this is a major driver of their success. Moreover, large digital platforms such as Facebook and Twitter are allowing these firms to promote and sell in a targeted, cost-effective and global manner, while in turn these more established technology companies are adding new users with ever greater ease and speed, with marginal costs of close to zero.

As populist politicians are making headway in the polls with isolationist promises and threats to resurrect old borders and new walls, Mr Tomlinson reminds us of the potential that openness and innovation brings. The explosion in tech start-ups illustrates this vividly, but the scope to benefit from increased digitisation applies invariably to broad industries, countries and regions. Moreover, messages no longer need to be printed and distributed through pigeon-holes: for that we can all be grateful.



The Marketplace

- Rebound in US data
- Volatility eases in line with investor fears
- Eurozone unemployment falls to 10.3%
- Commodities post short-term gains
- Oil prices rally

Market Focus

US

- Following an improvement in manufacturing conditions, the S&P 500 index closed at a seven-week high on Tuesday (1st March), gaining 2.4%: the largest daily gain since the end of January. The index held onto these gains to finish the week up by 2.7%.
- Non-farm payrolls provided a positive surprise on Friday with 242,000 jobs added to the economy in February, compared to expectations of a smaller 195,000 gain.
- The VIX index, which measures the estimated future volatility of the S&P 500, fell by 14.9% over the week, returning to the more moderate levels last seen at the end of December.

Europe

- Eurozone unemployment fell to its lowest level since August 2011, reading 10.3% in January. This is one percentage point lower than the January 2015 reading.

Commodities

- It was a predominantly positive week for commodities, most notably for nickel which gained 10.0% as prices rose to their highest level since November and experienced its greatest weekly gain in over six years. It was a similar story for copper, which registered its biggest weekly gain in four years with a 7.2% increase.
- Oil rallied over the week, enjoying a particularly strong day on Friday post the release of the latest US rig count data, which showed the number of active rigs declining for the twelfth consecutive week. The price of Brent crude rose by 4.5% on Friday, and by 10.3% over the week. This is the first time oil has rallied on each day of a week since Easter 2013, and the strongest weekly rally since August.

Scott Gordon & Jonathan Adamson

Asset Class/Region	Currency	Currency returns			
		Week ending 4 Mar. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	2.7%	3.5%	-1.9%	-3.2%
United Kingdom	GBP	2.0%	1.9%	0.4%	-7.1%
Continental Europe	EUR	3.1%	2.5%	-6.6%	-9.9%
Japan	JPY	4.9%	6.0%	-11.1%	-7.6%
Asia Pacific (ex Japan)	USD	6.0%	6.6%	-2.7%	-15.5%
Australia	AUD	4.8%	4.6%	-2.9%	-9.5%
Global	USD	3.5%	4.0%	-3.0%	-6.9%
Emerging Market Equities					
Emerging Europe	USD	7.1%	6.0%	4.3%	-13.7%
Emerging Asia	USD	5.2%	5.8%	-3.2%	-16.3%
Emerging Latin America	USD	14.8%	13.1%	12.0%	-17.3%
BRICs	USD	8.8%	9.1%	-3.8%	-19.2%
MENA countries	USD	3.1%	1.6%	-4.8%	-23.2%
South Africa	USD	10.9%	8.6%	4.9%	-24.0%
India	USD	9.6%	9.2%	-6.7%	-21.1%
Global emerging markets	USD	6.9%	6.9%	-0.2%	-17.0%
Bonds					
US Treasuries	USD	-0.6%	-0.7%	2.5%	2.9%
US Treasuries (inflation protected)	USD	0.2%	-0.2%	2.5%	-0.5%
US Corporate (investment grade)	USD	0.2%	-0.1%	1.1%	-0.9%
US High Yield	USD	3.1%	2.6%	1.5%	-5.7%
UK Gilts	GBP	-0.2%	-1.0%	4.4%	6.1%
UK Corporate (investment grade)	GBP	0.3%	-0.1%	0.8%	0.5%
Euro Government Bonds	EUR	-0.4%	-0.8%	2.1%	1.2%
Euro Corporate (investment grade)	EUR	0.2%	0.1%	1.1%	-0.8%
Euro High Yield	EUR	1.5%	1.3%	-0.4%	-2.6%
Japanese Government	JPY	0.5%	0.5%	4.0%	6.4%
Australian Government	AUD	-1.0%	-0.9%	2.0%	2.9%
Global Government Bonds	USD	0.2%	-0.1%	4.3%	3.7%
Global Bonds	USD	0.3%	0.1%	3.2%	2.1%
Global Convertible Bonds	USD	1.5%	1.8%	-2.8%	-3.7%
Emerging Market Bonds	USD	1.5%	1.2%	3.8%	4.7%

Asset Class/Region	Currency	Currency returns			
		Week ending 4 Mar. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	3.6%	3.9%	-0.1%	-1.0%
Australian Property Securities	AUD	-1.4%	-0.9%	2.1%	-0.8%
Asia Property Securities	USD	5.2%	5.8%	-1.4%	-3.2%
Global Property Securities	USD	4.0%	4.2%	-0.3%	-3.6%
Currencies					
Euro	USD	0.7%	1.2%	1.4%	-0.7%
UK Pound Sterling	USD	2.6%	2.3%	-3.4%	-6.8%
Japanese Yen	USD	0.2%	-1.0%	5.7%	5.2%
Australian Dollar	USD	4.4%	4.2%	2.1%	-4.8%
South African Rand	USD	5.4%	3.5%	0.9%	-23.0%
Swiss Franc	USD	0.4%	0.5%	1.0%	-3.0%
Chinese Yuan	USD	0.6%	0.8%	-0.1%	-3.6%
Commodities & Alternatives					
Commodities	USD	4.7%	3.6%	-2.3%	-25.6%
Agricultural Commodities	USD	1.4%	1.4%	-3.1%	-11.8%
Oil	USD	10.3%	7.6%	3.9%	-36.1%
Gold	USD	3.0%	1.7%	18.6%	4.9%
Hedge funds	USD	0.7%	0.6%	-2.6%	-7.7%

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

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