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Weekly Digest

Week ending **12 July 2015**

The first Conservative budget in 19 years was presented last week in the House of Commons, filling it with raucous celebration on the right and a somewhat forlorn look from the party on the left. Given the coverage it's received, I'm sure you are familiar with the key outcomes and you will have a formed your own view. But are we asking the right questions?

Many seem to be deciding whether this was a classic Tory approach to economic management as they cut welfare or whether this was actually fairly well balanced with the introduction of the National Living Wage and some earlier than planned increases to income tax thresholds.

We could of course spend an inordinate amount of time sweating the specifics of the budget and depending on our individual views we could easily identify people or groups of people who will be adversely impacted, but should we not be asking whether this budget will help facilitate the continuation of the UK's recovery post the 2008 crisis and subsequent recessions? And do we trust George Osborne and David Cameron to deliver what they have promised?

If the expert forecasts are correct, the changes announced last week, along with those already implemented under the coalition, will see the deficit cleared during this government, an additional one million people in work over the same time period, levels of economic growth comfortably in excess of 2% for the next three years and see inflation slowly and sensibly rise to the 2% target.

This sounds fairly promising to us, and yes we must apply a pinch of salt to anything that comes from the Tory press office. Naturally there will be bumps along the way (e.g. Grexit), but by keeping the focus on the UK's macro-economic health, this should be the best way to ensure that each and every one of us can find ourselves in a better position as individuals, households, communities and business owners.

In terms of whether we should trust George and Dave to deliver, in some respects we will need to wait and see. However when you look at the economic situation we were in when they took office with the Liberal Democrats 2010 (remember the infamous note left by the outgoing Labour Treasury), and compare it to how we are looking today, then perhaps we should take some comfort from the work done so far.

While we are not home and dry by a long shot, at least it feels like the ship is steady and moving in the right direction.

The **Marketplace**

- Euro area leaders reach agreement on Greek bailout
- Greek parliament to vote on measures as bridge financing agree
- 1,400 Chinese companies suspend trading of their shares
- Beijing intervenes in markets causing two-day record rally
- Oil price remains volatile

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

Market **Focus**

Global

- Global equity markets were subdued last week, with the exception of the Asia Pacific region which saw declines on the back of market turmoil in China. Asia ex Japan fell by 3.4% while Japanese equities lost 4.1% in yen terms.
- Global government bonds added 0.1%, with Australian sovereign paper rising by 0.7%. US corporate bonds fell by 0.2%, while UK corporates declined by 0.4% in sterling terms. In Europe, government bonds added 0.2% while investment grade credit fell 0.4% in euro terms.

Europe

- Euro area leaders have come to an interim agreement with Greece, allowing the indebted country to access bridge financing while a new bailout proposal is agreed.
- The euro rose against the US dollar as the marathon talks came to a close on Monday morning, and Donald Tusk, President of the European Council, announced that the "Eurosummit has unanimously reached agreement".
- At the time of writing, few details have emerged about the new plan which will have to be approved by the Greek government, as well as get through a vote in other euro area parliaments.
- German Chancellor, Angela Merkel, announced that although a debt 'hair-cut' was still out of the question, extension of Greek debt maturities could provide some relief to the Greeks.
- Further details suggest that Greece will be held to rigorous austerity measures, and rigid restructuring of its pensions system. Furthermore, a €50 billion fund will be created using Greek state-owned assets. These will be sold down and used for domestic 'growth initiatives' and to pay back creditors.

China

- In China, 1,400 companies suspended trading on local bourses as equities continued their fall deeper into bear market territory.
- At the end of the week Beijing intervened and, at the time of writing, 400 companies have resumed trading.
- The Shanghai Composite saw its biggest two-day gain since the financial crisis at the end of last week (adding 10.6% in renminbi terms) as authorities banned major shareholders from selling stock and the central bank intervened by freeing up funds to purchase stock.

Commodities

- Oil prices were volatile last week as uncertainty stemming from Greece and China weighed on markets. Details have also started emerging about a potential deal between Iran and the West, regarding the former's nuclear programme. A deal may pave the way for Iran to resume exporting oil. Brent crude fell by 2.6% last week.

Russell Andrews & Scott Gordon

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Asset Class/Region	Currency	Currency returns			
		Week ending 10 July 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	0.0%	0.7%	1.6%	7.2%
United Kingdom	GBP	1.2%	2.2%	3.4%	3.0%
Continental Europe	EUR	2.2%	2.8%	16.8%	19.4%
Japan	JPY	-4.1%	-2.9%	13.6%	28.1%
Asia Pacific (ex Japan)	USD	-3.4%	-3.9%	-0.6%	-5.7%
Australia	AUD	-0.8%	0.6%	3.7%	5.0%
Global	USD	-0.1%	0.5%	3.1%	2.4%
Emerging Market Equities					
Emerging Europe	USD	-0.2%	-1.6%	4.5%	-27.0%
Emerging Asia	USD	-4.0%	-4.6%	0.3%	-3.1%
Emerging Latin America	USD	-1.3%	-2.4%	-8.6%	-26.4%
BRICs	USD	-3.7%	-5.1%	2.8%	-6.0%
MENA countries	USD	-0.2%	0.0%	4.2%	-7.4%
South Africa	USD	-2.6%	-3.9%	-1.5%	-4.8%
India	USD	-1.2%	0.5%	1.5%	6.0%
Global emerging markets	USD	-3.2%	-4.0%	-1.1%	-10.1%
Bonds					
US Treasuries	USD	-0.1%	-0.4%	-0.5%	2.3%
US Treasuries (inflation protected)	USD	-0.4%	-0.6%	-0.5%	-2.4%
US Corporate (investment grade)	USD	-0.2%	-0.4%	-1.3%	0.4%
US High Yield	USD	-0.4%	-0.1%	2.4%	-0.3%
UK Gilts	GBP	-0.7%	-0.7%	-1.5%	8.1%
UK Corporate (investment grade)	GBP	-0.4%	-0.3%	-1.0%	6.0%
Euro Government Bonds	EUR	0.2%	0.0%	-1.3%	4.4%
Euro Corporate (investment grade)	EUR	-0.4%	-0.3%	-1.9%	1.4%
Euro High Yield	EUR	-0.1%	0.2%	1.6%	2.4%
Japanese Government	JPY	0.3%	0.0%	-0.7%	2.3%
Australian Government	AUD	0.7%	0.5%	0.8%	6.3%
Global Government Bonds	USD	0.1%	-0.3%	-3.7%	-7.6%
Global Bonds	USD	0.1%	-0.3%	-3.7%	-7.1%
Global Convertible Bonds	USD	-0.3%	-0.4%	1.1%	-4.1%
Emerging Market Bonds	USD	0.1%	0.5%	1.5%	-2.2%

* Estimate

Source: Bloomberg

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Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	2.1%	4.0%	-3.0%	5.9%
Australian Property Securities	AUD	-0.1%	1.0%	5.2%	14.3%
Asia Property Securities	USD	-3.4%	-3.6%	6.3%	2.8%
Global Property Securities	USD	0.0%	0.5%	-0.3%	1.1%
Currencies					
Euro	USD	0.5%	0.2%	-7.7%	-18.0%
UK Pound Sterling	USD	-0.4%	-1.3%	-0.4%	-9.4%
Japanese Yen	USD	0.0%	-0.3%	-2.5%	-16.9%
Australian Dollar	USD	-0.9%	-3.4%	-8.9%	-20.7%
South African Rand	USD	-1.1%	-2.3%	-7.1%	-14.2%
Swiss Franc	USD	0.2%	-0.3%	5.9%	-4.9%
Chinese Yuan	USD	-0.1%	-0.1%	-0.1%	-0.1%
Commodities & Alternatives					
Commodities	USD	-3.1%	-4.1%	-5.0%	-28.3%
Agricultural Commodities	USD	-1.2%	-1.8%	-2.6%	-8.5%
Oil	USD	-2.6%	-7.6%	2.4%	-46.0%
Gold	USD	-0.4%	-0.7%	-1.8%	-12.9%
Hedge funds	USD	-0.7%	-0.6%	0.7%	-1.1%

* Estimate

Source: Bloomberg

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