Weekly Digest

Week ending **17 January 2016**

It is probably fair to say that the New Year has got off to a bad start. The year-end festivities now seem like a distant memory as markets have suffered pretty concerted selling pressure thus far in 2016. The epicentres of the current concerns are China and the continued weakness of oil. Neither of these are surprises anymore. We know that China's growth path is going to be weaker than we had become accustomed to and there are, increasingly, questions over the relatively meagre expected growth rate of 6.5%. Furthermore, credit has grown substantially in China increasing concerns over indebtedness and the risk of a disorderly unwind if mishandled by Beijing, all while the government is giving the market mixed signals causing confusion and skittishness. But despite China, the developed world's economies look set to tick along reasonably in 2016 and this is unlikely to be derailed without a significant worsening of macro news out of the Emerging Markets. The fall in oil from $115 per barrel 18 months ago has continued year-to-date and has seen Brent push through the psychologically important $30 barrier to $29 per barrel at the time of writing. From here, in percentage terms, oil could fall precipitously still, but in terms of the nominal value for a barrel, the majority of the falls are behind us.

Rather than being premised on anxiety of further falls, therefore, the nervousness caused from the fall in oil come from two elements. The first is the outright surprise that moves of this magnitude of such a widely used and produced commodity are possible at all. It is almost as if people feel betrayed by the price slump. It seems that while demand has been reasonably robust that the level of supply has caught the market out. This surprise inevitably leads to unease. The second and growing source of concern is that the oil price fall no longer feels like a flash in the pan. The market is becoming increasingly concerned that the loose supply conditions will remain and with it a low oil price. It is this realisation that is finding its way into oil related asset pricing now.

Some perspective needs to be retained at a time of a rising chorus of worry, however. The global economy has softened but is still growing and the US, UK, Europe and Japan should continue to grow modestly through 2016. Although the Federal Reserve has made its first upward move in this rate cycle, further increases are likely to be very gradual, while the European Central Bank and Bank of Japan are certain to maintain their ultra-loose policies for at least the next 12 months. The fall in the oil price, which to date has had a material negative impact on the global economy, should begin to show through in higher consumer incomes and spending which should provide a positive impetus to the developed world. Employment growth has been strong in the US and UK and is improving in Europe and Japan; yet wage rises remain subdued and inflation is unlikely to become a concern for central banks in the year ahead.

If anything the volatility and nervousness across markets could well result in policy being kept looser for longer. We remain in an environment where returns are likely to be subdued; but against a background of low yet steady growth in the developed world further weakness in markets, caused possibly by the malaise in the emerging and commodity producing world, would be a good opportunity to add to equity positions where valuations are now at increasingly attractive levels.

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

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The **Marketplace**

- Global equities continue to fall
- Brent crude oil dips below $30 a barrel
- Safe-haven assets rally
- Chinese trade numbers exceed expectations
- Sterling depreciates

Market **Focus**

Global

- Global equities continued their torrid start to the year, falling by 2.6% as the price of Brent crude oil dipped below USD 30 a barrel – a 12 year low. Emerging markets also continued to suffer falling by 4.2% to take their year-to-date return to -10.7%. Emerging market currencies are under severe pressure, with the South African rand having declined by 31.0% against the US dollar over the past 12 months.

UK

- In the UK, industrial production declined by 0.7% month-on-month in November (versus expectations of no change), and manufacturing production numbers declined by 0.4% while a small rise of 0.1% had been expected.
- Sterling has depreciated by 6.1% against the dollar over the past 12 months, and these latest numbers caused it to take another leg down. Sterling fell by 1.8% against the greenback last week.

US

- US Treasuries rallied on the continued uncertainty adding 0.7%. Global Investment Grade bonds added 0.3%, while the US High Yield index declined by 2.5% as investors clearly sought out the safer side of the credit spectrum.
- Expectations of further rate hikes by the US Federal Reserve have been pushed out further into the year, while comments from some its members struck a notably dovish tone last week.

China

- Slowing growth in China continues to concern investors, but trade data surprised on the upside last week. Exports in USD printed 1.4% year-on-year (versus expectations of -8.0%) and the import numbers read -7.6% year-on-year versus consensus figures of -11.0%. Both measures indicate an improvement from December.

Commodities

- Gold declined 1.4% last week, but has added 2.6% year-to-date in another sign of investor nervousness.

James Klempster, CFA & Scott Gordon

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 15 Jan.	Month to date	YTD 2016	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-2.2%	-8.0%	-8.0%	-4.2%
United Kingdom	MSCI UK NR	GBP	-1.7%	-6.9%	-6.9%	-8.1%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.1%	-9.6%	-9.6%	-2.1%
Japan	Topix TR	JPY	-3.1%	-9.4%	-9.4%	3.9%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-3.7%	-10.5%	-10.5%	-19.6%
Australia	S&P/ASX 200 TR	AUD	-2.0%	-7.6%	-7.6%	-3.8%
Global	MSCI World NR	USD	-2.6%	-8.5%	-8.5%	-6.7%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-6.1%	-10.8%	-10.8%	-23.9%
Emerging Asia	MSCI EM Asia NR	USD	-3.8%	-10.0%	-10.0%	-20.0%
Emerging Latin America	MSCI EM Latin America NR	USD	-2.9%	-11.1%	-11.1%	-36.5%
BRICs	MSCI BRIC NR	USD	-5.8%	-12.6%	-12.6%	-26.2%
MENA countries	Dow Jones MENA TR	USD	-5.4%	-11.5%	-11.5%	-24.8%
South Africa	MSCI EM South Africa NR USD	USD	-7.2%	-16.6%	-16.6%	-37.8%
India	Nifty Fifty TR	USD	-3.6%	-8.7%	-8.7%	-19.4%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-4.2%	-10.7%	-10.7%	-24.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.7%	1.6%	1.6%	0.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.1%	0.4%	0.4%	-3.4%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.1%	0.5%	0.5%	-2.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-2.5%	-2.8%	-2.8%	-7.1%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.0%	2.7%	2.7%	0.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.3%	1.4%	1.4%	-0.2%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2%	0.7%	0.7%	1.3%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.5%	-0.3%	-0.3%	-1.2%
Euro High Yield	Barclays European HY 3% Issuer Constraint Total Return Index Value Unhedged EUR	EUR	-1.3%	-1.7%	-1.7%	-1.1%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1%	0.3%	0.3%	0.7%
Australian Government	JP Morgan Australia GBI TR	AUD	0.5%	1.1%	1.1%	2.9%
Global Government Bonds	JP Morgan Global GBI	USD	0.5%	1.6%	1.6%	-1.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.3%	1.1%	1.1%	-2.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.5%	-3.8%	-3.8%	-2.5%
Emerging Market Bonds	JP Morgan EMBI+	USD	-1.3%	-1.5%	-1.5%	0.5%

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	-2.4%	-5.2%	-5.2%	-10.1%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-0.7%	-3.1%	-3.1%	2.9%
Asia Property Securities	S&P Asia Property 40 NR	USD	-3.6%	-8.3%	-8.3%	-9.3%
Global Property Securities	S&P Global Property USD TR	USD	-2.9%	-6.9%	-6.9%	-10.5%
Currencies						
Euro	EURUSD Spot Exchange Rate - Price of 1 EUR in USD	USD	-0.1%	0.6%	0.6%	-6.2%
UK Pound Sterling	GBPUSD Spot Exchange Rate - Price of 1 GBP in USD	USD	-1.8%	-3.3%	-3.3%	-6.1%
Japanese Yen	JPYUSD Spot Exchange Rate - Price of 1 JPY in USD	USD	0.2%	2.8%	2.8%	-0.7%
Australian Dollar	AUDUSD Spot Exchange Rate - Price of 1 AUD in USD	USD	-1.3%	-5.8%	-5.8%	-16.5%
South African Rand	ZARUSD Spot Exchange Rate - Price of 1 ZAR in USD	USD	-2.8%	-7.8%	-7.8%	-31.0%
Swiss Franc	CHFUSD Spot Exchange Rate - Price of 1 CHF in USD	USD	-0.7%	0.1%	0.1%	-16.3%
Chinese Yuan	CNYUSD Spot Exchange Rate - Price of 1 CNY in USD	USD	0.1%	-1.4%	-1.4%	-6.0%
Commodities & Alternatives						
Commodities	RICI TR	USD	-5.4%	-9.4%	-9.4%	-28.9%
Agricultural Commodities	RICI Agriculture TR	USD	-0.3%	-1.8%	-1.8%	-13.3%
Oil	Brent Crude	USD	-13.7%	-22.4%	-22.4%	-39.3%
Gold	Gold Spot	USD	-1.4%	2.6%	2.6%	-13.8%
Hedge funds	HFRX Global Hedge Fund	USD	-0.7%	-2.4%	-2.4%	-5.2%

* Estimate

Source: Bloomberg

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Important notes