



Weekly Digest

Week ending **24 January 2016**

As the great and good (as well as Bono and DiCaprio!) descended on the World Economic Forum in Davos last week, those that couldn't afford the \$27,000 ticket watched from the stands as global markets reached a near term nadir, continuing their slide of recent weeks as oil crashed through the \$27 barrier. It was a week of two halves, however, as equities – and oil in particular – rallied hard into the weekend and provided some respite for bruised investors. There was a sense that the market had become overly bearish, chiefly led by Chinese growth concerns, and whilst supply and demand imbalances continue to weigh on oil prices, the 16% gain in West Texas Intermediate (WTI) crude over Thursday and Friday likely speaks to some short covering.

Last Wednesday, UK equities entered bear market territory with the lead index having fallen 20.1% from its most recent peak in April last year. Unsurprisingly, gilt yields hovered near their recent lows and comments from Mark Carney, Governor of the Bank of England (BoE), that interest rates would probably not need to be raised any time soon, drove 2-year UK yields down to just 0.4%, as rates markets discounted no hike until 2017 at the earliest. Sterling was broadly flat against the dollar over

the week but the dovish tone out of the BoE saw it sink to its lowest level in 7 years before gaining on Friday. The currency fared better against the euro which found itself under renewed pressure from Mario Draghi at the European Central Bank (ECB). His comment that there were “no limits” to the actions they could take to reflate the European economy was reminiscent of his July 2012 “whatever it takes” speech and markets reacted positively and sharply following the ECB meeting and breathed life into risk assets more globally.

As markets have repriced lower one thing is certain: pockets of value have started to appear. As long-term value investors we use these periods of retrenchment to reappraise our asset class return expectations and look to improve our funds' risk-adjusted return profiles. Our base case is that the economy continues to grow at a modest pace, Chinese growth concerns remain contained and that inflation and rates will remain subdued in the near term. Markets are likely to remain volatile and that will keep risk premia high across credit and equities, but with sentiment bouncing off lows, risk markets sharply lower and an ECB again talking up markets, investors could find worse times to add some risk to their portfolios.



The Marketplace

- ECB hints at further easing
- Equities see modest recovery
- Chinese GDP registers 6.8% yoy in Q4
- Bank of England strikes dovish tone
- Brent rallies after hitting fresh lows

Market Focus

Global

- Global equities saw a modest recovery last week, following a difficult start to the year. Developed markets added 1.1% while emerging markets stocks added 0.2%. Markets were buoyed by further hints that the European Central Bank is looking to expand its current quantitative easing programme. European equities rose by 2.5% in euro terms.
- Global bonds fell by 0.5% in dollar terms, but have added 0.6% year-to-date. US high yield bonds saw some respite, adding 0.1%. The asset class is down 7.2% since the start of the year, however.

UK

- Sterling depreciated at the start of the week, as Governor of the Bank of England, Mark Carney, struck a dovish tone and said that he expected interest rates to remain low for the foreseeable future – “The world is weak, and UK growth has slowed”, he remarked. Sterling recovered towards the end of the week appreciating by 0.1% against the dollar, but it is now -3.2% versus the greenback year-to-date.

China

- China's GDP grew by 6.8% year-on-year in the final quarter of 2015, according to official sources. The print was below expectations of 6.9% and was the lowest reading since the beginning of 2009.

Commodities

- Brent crude hit new multi-year lows last week, touching \$27.1 a barrel intra-day, before rallying to above \$30 a barrel once more. The price of Brent rose by 11.2% over the week. Expectations of further stimulus by China's authorities and comments by Khalid al-Falih, Chairman of Saudi Aramco, that he considered the current price of oil as “irrational”, look to have helped bolster oil prices.

Alex Harvey, CFA & Scott Gordon

Asset Class/Region	Currency	Currency returns			
		Week ending 22 Jan. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	1.4%	-6.6%	-6.6%	-6.2%
United Kingdom	GBP	1.6%	-5.4%	-5.4%	-10.7%
Continental Europe	EUR	2.5%	-7.3%	-7.3%	-3.6%
Japan	JPY	-2.0%	-11.2%	-11.2%	0.8%
Asia Pacific (ex Japan)	USD	0.1%	-10.5%	-10.5%	-20.4%
Australia	AUD	0.5%	-7.2%	-7.2%	-5.0%
Global	USD	1.1%	-7.5%	-7.5%	-8.4%
Emerging Market Equities					
Emerging Europe	USD	1.6%	-9.4%	-9.4%	-25.8%
Emerging Asia	USD	0.0%	-10.0%	-10.0%	-21.3%
Emerging Latin America	USD	-0.3%	-11.4%	-11.4%	-39.8%
BRICs	USD	-0.4%	-13.0%	-13.0%	-28.3%
MENA countries	USD	-5.8%	-16.7%	-16.7%	-28.7%
South Africa	USD	4.2%	-13.2%	-13.2%	-37.5%
India	USD	0.3%	-8.5%	-8.5%	-22.3%
Global emerging markets	USD	0.2%	-10.5%	-10.5%	-26.0%
Bonds					
US Treasuries	USD	0.0%	1.6%	1.6%	0.7%
US Treasuries (inflation protected)	USD	-0.2%	0.2%	0.2%	-3.0%
US Corporate (investment grade)	USD	-0.5%	0.0%	0.0%	-2.2%
US High Yield	USD	0.1%	-2.7%	-2.7%	-7.2%
UK Gilts	GBP	-0.4%	2.3%	2.3%	-0.2%
UK Corporate (investment grade)	GBP	-1.1%	0.3%	0.3%	-2.0%
Euro Government Bonds	EUR	0.2%	0.9%	0.9%	0.9%
Euro Corporate (investment grade)	EUR	0.1%	-0.2%	-0.2%	-1.2%
Euro High Yield	EUR	-0.3%	-2.0%	-2.0%	-1.8%
Japanese Government	JPY	0.2%	0.5%	0.5%	1.9%
Australian Government	AUD	-0.1%	0.9%	0.9%	2.3%
Global Government Bonds	USD	-0.5%	1.1%	1.1%	-1.3%
Global Bonds	USD	-0.5%	0.6%	0.6%	-1.9%
Global Convertible Bonds	USD	-1.0%	-4.7%	-4.7%	-4.3%
Emerging Market Bonds	USD	0.8%	-0.7%	-0.7%	1.4%

Asset Class/Region	Currency	Currency returns			
		Week ending 22 Jan. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	1.1%	-4.2%	-4.2%	-10.8%
Australian Property Securities	AUD	2.3%	-0.8%	-0.8%	4.1%
Asia Property Securities	USD	-4.9%	-12.8%	-12.8%	-13.2%
Global Property Securities	USD	-0.4%	-7.2%	-7.2%	-11.8%
Currencies					
Euro	USD	-1.1%	-0.5%	-0.5%	-5.0%
UK Pound Sterling	USD	0.1%	-3.2%	-3.2%	-5.0%
Japanese Yen	USD	-1.5%	1.3%	1.3%	-0.3%
Australian Dollar	USD	2.0%	-3.9%	-3.9%	-12.8%
South African Rand	USD	2.0%	-6.0%	-6.0%	-30.7%
Swiss Franc	USD	-1.5%	-1.4%	-1.4%	-14.3%
Chinese Yuan	USD	0.1%	-1.3%	-1.3%	-5.6%
Commodities & Alternatives					
Commodities	USD	2.9%	-6.8%	-6.8%	-26.9%
Agricultural Commodities	USD	0.4%	-1.4%	-1.4%	-12.0%
Oil	USD	11.2%	-13.7%	-13.7%	-33.7%
Gold	USD	0.8%	3.4%	3.4%	-15.7%
Hedge funds	USD	-1.0%	-3.3%	-3.3%	-6.5%

* Estimate

Source: Bloomberg

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