FP FINANCIAL PARTNERS

momentum

Weekly Digest

Week ending **26 July 2015**

Following last month's weakness, the Chinese government's intervention in markets returned some confidence and led the Shanghai composite to add 16% from its recent low on July 8. The market gave a large chunk of that gain back today, however, with equities falling over 8% as the market dissected the latest weak economic data published on Friday. Questions are being raised over the foundations underlying the stock market. Sentiment with respect to China is fickle presently, which is unsurprising given the wide swings in prices of late, as well as the growing participation of highly sensitive domestic retail investors in the stock market.

The Chinese government is in a difficult position with respect to their domestic stock market. For a start, there are a growing number of retail clients staking large portions of their private wealth in the market, perhaps largely as a consequence of the markets' drive up over the year to mid-June. While the Chinese economy remains centrally managed, many individuals are inclined to feel that the government wouldn't let anything too bad happen to their finances. In fact, as Beijing slowly opens up Chinese markets to foreign capital, investment markets will need to be less interfered with by the official sector rather than more, if foreign capital is to truly embrace any opportunity in China. Yet, as Bloomberg reports, to shore up the markets officials allowed "more than 1,400 companies to halt trading, banned major shareholders from selling stakes and armed a state-run financing vehicle with more than $480 billion to support the market" in early July.

There is an understandable desire amongst governments to protect the masses from the worst excesses of stock market behaviour, but it is important to let markets operate in as unfettered a manner as possible. The ability of a market to trade at a fair price, even if that price is not to everyone's taste (let alone benefit), should be a core tenet of a maturing economy. Otherwise the risk and return trade-off that investors must adopt becomes artificially skewed. As today's price moves show, an artifice, when identified, will result in a quick readjustment of market prices to reflect reality. Indeed Bloomberg also reports from an unnamed source that the IMF has told the Chinese government that "while interventions in general are appropriate to prevent major disorder, prices should be allowed to settle through market forces".

This serves to remind all of us of the risks of investing in markets and economies on the basis of anything other than the opportunity of realising a profit over time. China's economy, for example, is large and continues to grow well, but it poses a range of challenges for investors due to the governments conflicted desire to open up the capital markets, while remaining reluctant to free the reins.

The **Marketplace**

- Global equities fall
- Core government bonds rise
- Earnings and economic data releases disappoint
- Chinese equities tumble as confidence dissipates
- Commodities continue to suffer

Market **Focus**

Global

- Global developed equity markets fell by 2.0% last week, as corporate earnings disappointed and economic data releases came in below expectations.
- In response to equity falls, government bonds in the US, UK and Europe all rose as investors sought 'safe-haven' assets.

US

- Some large US companies saw their equities tumble last week, as earnings reports revealed disappointing numbers. Apple ended the week down by 4.0%, having seen a drop of circa 9% as the number of shipped iPhones left investors unimpressed.
- The President of the St Louis Federal Reserve, James Bullard, stated that he believed a September rate rise now has "more than a 50% probability".

Europe

- In Europe, PMI data also disappointed, with the composite euro area number printing 53.7 (falling from the June reading and below expectations). The manufacturing PMI number fell by 0.3 points to 52.2, while the services number dropped 0.6 points to 53.8.

China

- Chinese industrial profits fell by 0.3% year-on-year in June, and printed significantly below April and May levels. Initial July manufacturing Purchasing Manager Index (PMI) numbers also unsettled markets: falling 1.2 points to 48.2, versus expectations of a rise from its June reading.
- The MNI China Business Indicator also printed below expectations. At the time of writing, Chinese bourses closed their Monday trading session down by 8.5%. Recent government intervention had propped up prices, but confidence in the measures look to have waned at the start of this week.

Commodities

- Commodities fell across the board, with the RICI index falling by 4.2%.
- Brent crude lost 4.3% as the latest inventory report from the US Energy Information Administration (EIA) showed inventories rising (rather than falling as expected) and worries surrounding China continued.
- Gold retreated 3.1% as the dollar continued to strengthen and the likelihood of an interest rate rise in the US dampened appetite for the asset class.

James Klempster & Scott Gordon

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 24 July 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-2.2%	0.9%	1.8%	6.1%
United Kingdom	GBP	-2.9%	0.7%	1.8%	-0.8%
Continental Europe	EUR	-1.9%	4.7%	19.0%	18.9%
Japan	JPY	-0.4%	1.6%	18.8%	32.8%
Asia Pacific (ex Japan)	USD	-2.2%	-4.4%	-1.2%	-8.2%
Australia	AUD	-1.8%	2.0%	5.1%	4.0%
Global	USD	-2.0%	0.6%	3.3%	1.3%
Emerging Market Equities					
Emerging Europe	USD	-5.2%	-5.6%	0.3%	-28.6%
Emerging Asia	USD	-2.2%	-5.6%	-0.8%	-5.7%
Emerging Latin America	USD	-7.0%	-9.5%	-15.3%	-34.5%
BRICs	USD	-2.9%	-6.5%	1.2%	-10.4%
MENA countries	USD	0.5%	1.8%	6.1%	-8.1%
South Africa	USD	-4.9%	-6.0%	-3.6%	-10.5%
India	USD	-1.9%	1.3%	2.3%	3.2%
Global emerging markets	USD	-3.3%	-6.1%	-3.3%	-13.8%
Bonds					
US Treasuries	USD	0.5%	0.6%	0.5%	3.2%
US Treasuries (inflation protected)	USD	0.1%	-0.1%	0.0%	-2.0%
US Corporate (investment grade)	USD	0.3%	0.4%	-0.5%	1.0%
US High Yield	USD	-1.0%	-1.0%	1.5%	-1.0%
UK Gilts	GBP	1.6%	1.0%	0.2%	9.2%
UK Corporate (investment grade)	GBP	1.1%	1.1%	0.4%	7.1%
Euro Government Bonds	EUR	0.6%	1.9%	0.5%	5.6%
Euro Corporate (investment grade)	EUR	0.4%	1.1%	-0.5%	2.6%
Euro High Yield	EUR	0.0%	1.4%	2.7%	3.3%
Japanese Government	JPY	0.2%	0.3%	-0.5%	2.4%
Australian Government	AUD	0.8%	1.3%	1.6%	7.0%
Global Government Bonds	USD	0.8%	0.0%	-3.4%	-7.2%
Global Bonds	USD	0.7%	-0.1%	-3.5%	-6.7%
Global Convertible Bonds	USD	-0.4%	-0.6%	0.9%	-4.4%
Emerging Market Bonds	USD	-0.5%	0.0%	1.0%	-3.3%

* Estimate

Source: Bloomberg

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Asset Class/Region	Currency	Currency returns			
		Week ending 24 July 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	-0.6%	4.4%	-2.6%	4.7%
Australian Property Securities	AUD	-2.1%	1.8%	6.0%	12.4%
Asia Property Securities	USD	-0.9%	-0.7%	9.4%	4.2%
Global Property Securities	USD	-1.1%	1.5%	0.7%	0.6%
Currencies					
Euro	USD	1.4%	-1.4%	-9.2%	-18.4%
UK Pound Sterling	USD	-0.6%	-1.3%	-0.4%	-8.7%
Japanese Yen	USD	0.2%	-1.1%	-3.3%	-17.6%
Australian Dollar	USD	-1.2%	-5.5%	-10.9%	-22.7%
South African Rand	USD	-2.2%	-3.7%	-8.4%	-16.6%
Swiss Franc	USD	-0.1%	-2.9%	3.2%	-6.3%
Chinese Yuan	USD	0.0%	0.0%	0.0%	-0.2%
Commodities & Alternatives					
Commodities	USD	-4.2%	-10.0%	-10.8%	-31.6%
Agricultural Commodities	USD	-4.0%	-7.8%	-8.6%	-12.1%
Oil	USD	-4.3%	-14.1%	-4.7%	-49.0%
Gold	USD	-3.1%	-6.3%	-7.2%	-15.0%
Hedge funds	USD	-0.5%	0.3%	1.6%	-0.7%

* Estimate

Source: Bloomberg

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

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Important notes