Market Weekly Review

Week ending 1 June 2014

- Markets look ahead to Thursday's ECB meeting
- Anti-EU parties make gains in European elections
- Ukraine elections produce clear winner
- Manufacturing numbers rise in China
- Japanese equities rally

Markets continued to move steadily upwards last week, with the MSCI World index rising by 1.0%, to bring year to date gains to 4.3% in US dollar terms. The US saw the release of better than expected economic data, including PMI (Purchasing Managers' Index) and housing numbers, providing impetus for the S&P 500's gains of 1.2%. Equity markets in Europe rose by 1.0% in euro terms, and have added 2.6% month to date, with the relative underperformance perhaps a consequence of investors preferring to wait and see ahead of the much anticipated meeting of the European Central Bank (ECB) on Thursday.

Within the eurozone, inflation is currently running at 0.7%, with the threat of deflation increasingly starting to occupy investors' minds. In a Bloomberg survey 90% of economists expected action from the ECB this week, and predicted that it would come in the form of a cut in the repo (repurchase agreement) and deposit rates, rather than an asset purchase programme akin to the US's Quantitative Easing (QE) programme. The Financial Times reported that a scheme to offer cheap loans to small businesses may also be announced, citing ECB officials over the weekend. The euro was unchanged versus the dollar over the week. Month to date the single currency has fallen by 1.4% against the greenback, however.

In fixed income markets, US Treasuries continued to rally and ended the week up by 0.4%, with 10-year yields 2.48%. Yields in Europe are plumbing new lows, with 10-year government bond yields in Germany dropping to 1.36%, and 10-year UK gilts yielding 2.57%. Both returned 0.5% over the week (in euro and sterling terms, respectively). Hard currency Emerging Market bonds also saw strong returns of 0.9%, as their yield curves moved in sympathy with the US curve.

In contrast to the anticipation surrounding the ECB meeting, markets appear to have taken little notice of the other big European story of late: namely the success of anti-EU parties at the European elections. The UK's UKIP and France's National Front both achieved unlikely victories, with the Syriza party in Greece also coming out on top. The impact of this varied group of anti-establishment parties on EU policy remains to be seen, especially given the large proportion of Members of the European Parliament (MEPs) now from euro sceptic parties. Voters have clearly voiced concern about the current state of the 'European project' which mainstream political parties will have to heed.

In other election news, a clear winner emerged in the Ukrainian elections. Petro Poroshenko received more than 50% of the vote, avoiding a second round of voting, with a high turnout rate of 60%. Markets welcomed the news, hoping Mr. Poroshenko will be a calming force in the region. Gold was down by 3.0% this week, with Deutsche Bank citing reduced political risk within Ukraine as one of the contributing factors to this fall (as well as strong economic data coming out of the US).

In China, the official Purchasing Managers' Index rose to 50.8 (its highest level in 5 months) indicating a pickup in manufacturing activity. It follows the Communist Party's 'mini-stimulus', launched in April, which included increased investment on railways and social housing, and tax breaks for small businesses. Furthermore, the China Securities Journal reported last week that the People's Bank of China is looking to ease monetary policy, by reducing the Reserve Requirement Ratio (RRR) – the level of reserves that banks are required to hold – if growth targets are not met.

Elsewhere in Asia, the Topix index rallied by 1.8% in yen terms last week, on the back of business friendly news and increased capital spending in Japan. As part of Prime Minister Shinzo Abe's ongoing reforms, Bloomberg reported that Japan now plans to lower its corporate tax rates to be more in line with its Asian peers. Markets will also be watching whether Japanese consumer spending bounces back in the coming months, following the hike in the consumption tax in April. Consumer spending fell 4.4% compared to April last year, but this followed a rash of discretionary spending by consumers before the tax change came into effect. Broadly speaking Asian bourses have been steady, despite the military coup in Thailand. The MSCI EM Asia fell by a modest 0.6% last week, but is +4.1% month to date.

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

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 30 May 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.2%	2.3%	4.7%	19.7%
United Kingdom	MSCI UK NR	GBP	0.5%	1.5%	3.2%	7.8%
Continental Europe	MSCI Europe ex UK NR	EUR	1.0%	2.6%	7.1%	18.9%
Japan	Topix TR	JPY	1.8%	3.4%	-6.8%*	7.9%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.1%	3.2%	5.3%	8.8%
Australia	S&P/ASX 200 TR	AUD	0.0%	0.7%	4.6%	16.5%
Global	MSCI World NR	USD	1.0%	2.0%	4.3%	18.9%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-1.0%	8.3%	-1.7%	-1.3%
Emerging Asia	MSCI EM Asia NR	USD	-0.6%	4.1%	4.0%	6.8%
Emerging Latin America	MSCI EM Latin America NR	USD	-2.7%	-0.1%	2.9%	-4.8%
BRICs	MSCI BRIC NR	USD	-1.8%	4.6%	0.5%	1.9%
MENA countries	Dow Jones MENA TR	USD	2.2%	3.0%	19.5%	34.9%
South Africa	MSCI EM South Africa NR USD	USD	-7.1%	1.6%	5.9%	10.8%
India	Nifty Fifty TR	USD	-3.3%	9.9%	20.0%	16.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.4%	3.5%	3.4%	4.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4%	1.1%	3.4%	1.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.6%	2.2%	6.0%	0.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.5%	1.4%	5.6%	4.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	0.9%	4.6%	7.9%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	1.0%	4.1%	0.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.5%	1.2%	4.9%	3.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.5%	1.0%	5.9%	6.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	0.9%	4.2%	4.9%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.5%	-0.9%	3.7%	16.4%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.3%	1.3%	2.8%
Australian Government	JP Morgan Australia GBI TR	AUD	0.6%	1.6%	4.0%	2.9%
Global Government Bonds	JP Morgan Global GBI	USD	0.4%	0.5%	4.3%	5.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.4%	0.5%	4.1%	5.6%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.4%	0.8%	4.9%	12.9%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.9%	3.1%	8.6%	4.1%

* Estimate

Source: Bloomberg

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 30 May 2014	Month to date	YTD 2014	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	0.8%	2.3%	15.8%	8.6%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-0.4%	0.0%	8.0%	0.8%
Asia Property Securities	S&P Asia Property 40 NR	USD	1.0%	6.7%	1.2%	5.8%
Global Property Securities	S&P Global Property USD TR	USD	0.8%	3.3%	9.7%	7.6%
Currencies						
Euro		USD	0.0%	-1.4%	-0.9%	4.9%
UK Pound Sterling		USD	-0.5%	-0.4%	1.5%	10.2%
Japanese Yen		USD	0.2%	0.8%	3.2%	-1.2%
Australian Dollar		USD	0.9%	0.5%	4.3%	-2.7%
South African Rand		USD	-2.6%	-0.3%	-0.4%	-4.6%
Swiss Franc		USD	0.1%	-1.5%	-0.5%	6.7%
Chinese Yuan		USD	-0.2%	0.2%	-3.1%	-1.8%
Commodities & Alternatives						
Commodities	RICI TR	USD	-1.4%	-1.7%	4.3%	4.9%
Agricultural Commodities	RICI Agriculture TR	USD	-1.7%	-6.4%	6.9%	-1.1%
Oil	ICE Crude Oil CR	USD	-0.3%	1.3%	-1.1%	8.3%
Gold	Gold Spot	USD	-3.0%	-3.0%	4.2%	-11.2%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%*	0.5%*	0.8%*	2.9%*

* Estimate

Source: Bloomberg

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Important notes