Weekly Review

Week ending 2 August 2013

Equity markets in the US ended the week up 1.1%, following a strong set of data from the labour market and manufacturing sector. According to the US Labor Department, 162,000 jobs were added to the economy in July, helping to reduce the unemployment rate to a four-year low of 7.4%. Jobless claims for the week ending 26 July were also lower, falling by 19,000 to 326,000 (figures adjusted for seasonal variations in demand), whilst the manufacturing ISM rose by 4.5 points to 55.4 in July, ahead of the 52.0 expected by the majority of economists and pointing towards an increase in activity in the manufacturing sector. Growth in the wider economy also picked up in the second quarter, after last week's second quarter GDP report showed the US economy growing at an annualised rate of 1.7%, up from 1.1% in the first quarter. The news comes in spite of public spending cuts of USD 85 billion introduced in March.

The Federal Open Market Committee's latest statement, which included keeping the federal funds rate and pace of quantitative easing unchanged, provided a more subdued view of the current economy; describing growth in the US as "modest" and pointing to low inflation and higher mortgage rates as possible threats to the real estate market.

In Europe, following Thursday's European Central Bank meeting, ECB President Mario Draghi announced that the "Governing Council confirms that it expects the key ECB rates to remain at present or low levels for the foreseeable future". The central bank left the benchmark refinancing rate unchanged at 0.5% and the deposit rate at 0%. This comes amidst signs of progress in the region, following Friday's Eurozone Manufacturing Purchasing Managers' index. The index rose to 50.3 in July, up from 48.8 previously and the first time it has peaked above 50 since July 2011. The PMI report also featured the smallest dispersion amongst countries since 2005, with Ireland, the Netherlands, Germany and Italy all posting above 50. Nevertheless, the International Monetary Fund (IMF) was keen to point out the need for Greece to do more to promote growth and deliver structural reforms, after releasing its latest tranche of financial aid on Monday. Following its fourth review of the country, the IMF said Greece must "rapidly" deliver on "structural reforms to unlock growth and create jobs" and warned of a potential EUR 10.9 billion financing gap over the next two years.

The Bank of England also chose to keep policy unchanged at its second meeting under new governor Mark Carney. The meeting saw interest rates left on hold at 0.5% (the same rate since March 2008) whilst the quantitative easing programme remained at its current level of GBP 375 billion. The housing sector continues to show signs of improvement, after Nationwide building society reported that house prices had grown by 3.9% in the year to the end of July, marking the largest year-on-year increase in nearly three years. The UK construction industry also picked up in July, as the Markit/CIPS Construction PMI rose to 57.0 from 51.0 in June, helped by government measures announced in March which helped first time buyers get onto the property ladder.

Turning our attention to Asia, India eased policy on foreign direct investment last week, by loosening its restrictions on infrastructure investment and the sourcing of products in a number of cities in the country. Despite initial hostility amongst local traders, the measures, which include giving foreign supermarkets up to five years to source 30% of their products from small Indian firms and allowing foreign retailers to set up in cities with a population of less than a million, are intended to attract more foreign firms to the country and help to promote growth.

In China, whilst the official HSBC/Markit PMI for the services industry came in above 50 for July (51.3), the manufacturing PMI was weaker at 47.2; its lowest level since August 2012 and below June's reading of 48.2.

Global developed equities outperformed their emerging counterparts, adding 1.2% in US dollar terms. Japan provided some of the strongest returns, adding 2.5% in local currency terms, whilst Indian stock markets fell away sharply, losing 6.5% in US dollar terms over the week.

Fixed income market returns were varied over the week with global developed and emerging market bonds down -0.1% and -0.9% respectively, but Euro government bonds adding 0.4% in local currency terms.

Source: Bloomberg. Returns in US dollars unless otherwise stated. August 2013.

Returns to 2 August 2013

Asset class/region	Index	Currency	Currency returns: Week ending 2 August 2013	Month to date	YTD 2013	12 months
Developed markets equities						
United States	S&P 500 NR	USD	1.1%	1.4%	20.9%	23.3%
United Kingdom	FTSE All Share TR	GBP	1.6%	0.6%	16.6%	22.3%
Continental Europe	MSCI Europe ex UK NR	EUR	2.1%	1.6%	12.1%	20.2%
Japan	Topix TR	JPY	2.5%	5.7%	40.7% *	67.1%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-0.9%	1.0%	-0.5%	9.6%
Australia	S&P/ASX 200 TR	AUD	1.5%	1.3%	12.4%	22.8%
Global	MSCI World NR	USD	1.2%	1.7%	16.1%	22.3%
Emerging markets equities						
Emerging Europe	MSCI EM Europe NR	USD	0.7%	1.9%	-7.6%	2.9%
Emerging Asia	MSCI EM Asia NR	USD	-1.3%	0.3%	-5.1%	7.8%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.3%	2.0%	-14.0%	-6.8%
BRICs	MSCI BRIC NR	USD	-1.4%	0.8%	-10.7%	1.5%
MENA countries	Dow Jones MENA TR	USD	1.0%	0.2%	16.2%	15.4%
South Africa	FTSE JSE All Share TR	USD	2.2%	1.3%	-7.2%	3.2%
India	Nifty Fifty TR	USD	-6.5%	-1.4%	-13.0%	-1.0%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.6%	0.8%	-7.9%	3.2%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.2%	0.0%	-2.7%	-3.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.3%	0.1%	-7.2%	-6.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	0.0%	-2.6%	-0.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.2%	-0.1%	3.2%	8.1%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.4%	-0.4%	-2.8%	-3.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.0%	-0.1%	0.5%	3.5%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4%	0.3%	1.1%	5.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	0.2%	1.1%	5.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.6%	0.3%	5.3%	20.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	-0.1%	0.8%	1.0%
Australian Government	JP Morgan Australia GBI TR	AUD	0.2%	-0.3%	0.1%	0.1%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	0.0%	-4.8%	-5.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.1%	0.0%	-3.2%	-2.3%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.1%	1.1%	10.5%	15.9%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.9%	0.0%	-8.8%	-4.5%

* *Estimate*

Source: Bloomberg, August 2013

Returns to 2 August 2013

Asset class/region	Index	Currency	Currency returns			
			Week ending 2 August 2013	Month to date	YTD 2013	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-3.5%	-0.8%	5.7%	5.9%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.9%	0.6%	19.0%	27.2%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.2%	1.7%	4.4%	12.7%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-2.8%	-0.4%	7.2%	15.1%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-0.4%	2.6%	2.4%	19.4%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	-1.8%	0.6%	4.3%	12.1%
Currencies						
Euro		USD	0.0%	-0.2%	0.7%	5.6%
UK Pound Sterling		USD	-0.6%	0.6%	-5.9%	-3.6%
Japanese Yen		USD	-0.7%	-1.1%	-12.4%	-20.8%
Australian Dollar		USD	-3.9%	-0.9%	-14.3%	-13.7%
South African Rand		USD	-0.8%	0.3%	-13.9%	-14.6%
Swiss Franc		USD	-0.1%	-0.3%	-1.5%	2.8%
Chinese Yuan		USD	0.0%	0.0%	1.7%	3.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.5%	0.5%	-3.6%	-6.5%
Agricultural Commodities	RICI Agriculture TR	USD	-1.1%	-0.9%	-9.5%	-17.0%
Oil	ICE Crude Oil CR	USD	1.8%	1.8%	-1.3%	-3.5%
Gold	Gold Spot	USD	-1.6%	-1.0%	-21.7%	-22.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.3% *	0.2% *	4.4% *	5.6% *

** Estimate*

Source: Bloomberg, August 2013

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