

Market Weekly Review

Week ending **2 November 2014**

- US Federal Reserve ends Quantitative Easing
- Bank of Japan injects more money into the economy
- Inflation falls again in Europe
- UK banks boosted by new leverage rules
- Chinese PMIs disappoint

Global equities added 2.4% last week as divergent central bank policy continued to dominate markets. The strength of the US economy also helped boost returns, following strong earnings reports and rising confidence, with the US consumer confidence survey reaching a seven year high in October. Third quarter GDP in the world's largest economy came in ahead of analysts' forecasts, printing 3.5% year-on-year versus 3.0% expected. US equities added 2.7% over the week, helping the S&P 500 index reach a new record high of 2,018 at close of business on Friday.

The US Federal Reserve (Fed) brought its third round of Quantitative Easing (QE) to an end last week in a widely anticipated policy move. The statement released following the two-day meeting by the Fed's Open Market Committee was judged to be more hawkish than expected following recent market volatility, with multiple references to a tightening US labour market. The central bank reiterated, however, that "considerable time" will pass before it starts to raise interest rates. US treasuries ended the week down by 0.3% while the US dollar continued to strengthen against a basket of major currencies to end the week up by 2.0%. Gold fell by 4.7% over the week and hit an intra-day low of USD 1,163 an ounce on Friday, its lowest level since 2010.

The Bank of Japan (BoJ) surprised investors on Friday by announcing that it will increase the scale of its QE programme from its current level of JPY 60-70 trillion a year (circa USD 530-620 billion) to 80 trillion (circa USD 710 billion). The announcement came hours after the USD 1.2 trillion Japanese Government Pension Investment Fund announced that it will double its holdings of domestic equities to take the total equity

exposure of the fund to 50% (split evenly between Japanese and international holdings). The yen fell by 3.3% against the dollar, and the Topix index spiked to end the week up by 7.4% in yen terms.

The European Central Bank (ECB) will meet this Thursday, as core inflation in the euro area fell from 0.8% in September to 0.7% in October according to Eurostat (headline inflation rose from 0.3% to 0.4%). The euro fell by 1.2% against the US dollar last week, and has now depreciated by 8.9% against the greenback year-to-date. Although this will help exporters, calls for full-scale quantitative easing persist. Rumours that the ECB will start to engage in purchases of corporate bonds in the secondary market helped equity markets last week, with the MSCI Europe ex UK index rising by 2.9% in euro terms to bring year-to-date gains to 4.5% in euro terms.

In the UK, the Bank of England released its new rules on how much capital UK banks will be required to hold from 2019. The central bank announced that it will be raising the capital threshold for banks from 3% to 4.1%, with the option to increase this number by a further 0.9% if the Bank considers the economy to be overheating. This new target was less stringent than markets had expected and UK bank stocks rallied on the news, with Barclays adding 8.2% in sterling terms on Friday.

Finally, in emerging markets, Chinese Purchasing Managers' Index (PMI) data surprised on the downside over the weekend. The official manufacturing (PMI) read 50.8 versus expectations of 51.2, and down from 51.1 in September. The non-manufacturing PMI data released early on Monday also fell by 0.2% from its September reading of 54.0. Last week saw emerging Asia perform strongly, however, with equities adding 3.2%. On the back on the re-election of Dilma Rousseff, Brazil hiked interest rates by 0.25% to 11.25% last week, helping local equities add 5.4% (5.2% in Brazilian real terms) as uncertainties surrounding Ms Rousseff and her economic plan persist. The South American country announced that its monthly deficit for September was its largest since it started keeping records in 2001.

Asset Class/Region	Currency	Currency returns			
		Week ending 31 Oct. 2014	Month to date	YTD 2014	12 months
Developed Market Equities					
United States	USD	2.7%	2.4%	10.4%	16.5%
United Kingdom	GBP	2.4%	-1.0%	-0.1%	0.5%
Continental Europe	EUR	2.9%	-2.0%	4.5%	6.5%
Japan	JPY	7.4%	0.6%	4.3%	13.9%
Asia Pacific (ex Japan)	USD	2.7%	2.7%	6.4%	4.0%
Australia	AUD	2.1%	4.4%	7.0%	6.4%
Global	USD	2.4%	0.6%	4.6%	8.7%
Emerging Market Equities					
Emerging Europe	USD	2.1%	-1.4%	-13.3%	-18.7%
Emerging Asia	USD	3.2%	1.5%	6.7%	5.5%
Emerging Latin America	USD	3.9%	-0.1%	1.2%	-5.7%
BRICs	USD	4.1%	2.6%	3.9%	0.8%
MENA countries	USD	-0.8%	-5.9%	18.0%	24.1%
South Africa	USD	4.5%	6.6%	9.0%	6.1%
India	USD	3.5%	5.4%	34.4%	34.6%
Global emerging markets	USD	3.2%	1.2%	3.6%	0.6%
Bonds					
US Treasuries	USD	-0.3%	1.1%	4.8%	3.3%
US Treasuries (inflation protected)	USD	-0.1%	1.0%	5.2%	2.3%
US Corporate (investment grade)	USD	-0.3%	1.0%	6.7%	6.3%
US High Yield	USD	0.1%	1.2%	4.7%	5.8%
UK Gilts	GBP	-0.2%	1.4%	9.0%	6.7%
UK Corporate (investment grade)	GBP	-0.1%	0.8%	8.5%	6.6%
Euro Government Bonds	EUR	0.6%	0.3%	10.4%	10.1%
Euro Corporate (investment grade)	EUR	0.3%	0.4%	7.2%	7.0%
Euro High Yield	EUR	-0.9%	-0.7%	-4.7%	-1.8%
Japanese Government	JPY	0.2%	0.5%	2.8%	2.3%
Australian Government	AUD	0.0%	1.3%	7.5%	7.5%
Global Government Bonds	USD	-1.1%	-0.1%	1.5%	-0.7%
Global Bonds	USD	-0.8%	0.1%	1.7%	0.4%
Global Convertible Bonds	USD	0.4%	-0.1%	-0.7%	0.4%
Emerging Market Bonds	USD	0.9%	2.1%	9.4%	7.2%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 31 Oct. 2014	Month to date	YTD 2014	12 months
Property					
US Property Securities	USD	2.5%	9.9%	24.3%	17.8%
Australian Property Securities	AUD	3.5%	6.8%	17.1%	10.3%
Asia Property Securities	USD	4.6%	4.4%	2.5%	0.4%
Global Property Securities	USD	2.9%	5.7%	12.8%	8.5%
Currencies					
Euro	USD	-1.2%	-0.8%	-8.9%	-7.8%
UK Pound Sterling	USD	-0.6%	-1.3%	-3.4%	-0.3%
Japanese Yen	USD	-3.3%	-2.2%	-6.3%	-12.7%
Australian Dollar	USD	0.1%	0.6%	-1.3%	-7.0%
South African Rand	USD	-0.9%	2.3%	-4.9%	-8.9%
Swiss Franc	USD	-1.1%	-0.8%	-7.2%	-5.8%
Chinese Yuan	USD	0.1%	0.4%	-1.0%	-0.4%
Commodities & Alternatives					
Commodities	USD	0.8%	-1.7%	-8.9%	-8.5%
Agricultural Commodities	USD	2.4%	7.1%	-6.0%	-6.8%
Oil	USD	0.7%	-10.6%	-22.7%	-21.2%
Gold	USD	-4.7%	-2.9%	-2.7%	-11.3%
Hedge funds	USD	0.2%	-1.7%	-0.5%	0.6%

* Estimate

Source: Bloomberg

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