

Market Weekly Review

Week ending 3 August 2014

- Equity markets fall during a turbulent week
- Banco Espírito Santo receives bail out
- US GDP rebounds
- Further sanctions imposed on Russia
- Argentina defaults on its debt

Global equity markets fell by 2.4% last week amidst heightened geopolitical risk and the suspension of trading in shares of Portuguese bank Banco Espírito Santo, following an 82% drop in its share price. The Portuguese government stepped in on Sunday night to bail out the troubled lender, with support from the European Union (EU) and the International Monetary Fund (IMF). The Chicago Board Options Exchange (CBOE) VIX index, which measures implied volatility, rose by 30% over the week to reach its highest level in over three months.

US GDP growth registered 4.0% in the second quarter compared to consensus forecasts of 3.0%, and there were positive revisions to Q1 growth (+0.8%), Q4 2013 (+0.9%) and Q3 2013 (+0.4%). Despite positive signs from the real economy, the S&P 500 index recorded its biggest one-day drop in three months the day after the announcement, as expectations of an interest rate hike by the Federal Reserve (Fed) increased. The US dollar appreciated against most other major currencies, with the British pound declining by 0.9% in line with the yen (-0.8%) and the Australian dollar (-0.9%).

The sell-off was softened by Friday's lower-than-expected US non-farm payroll numbers and disappointing data from purchasing managers. The US economy added 209,000 jobs last month versus consensus expectations for a rise of 230,000, while the Chicago Purchasing Manager Index (PMI) came in well below expectations at 52.6 versus the 63.0 expected. Fed Chair, Janet Yellen, maintained her dovish stance by stating that there is still "significant underutilization of labour resources" in the US economy.

Heavier sanctions were imposed on Russia last week, including limitations on EU nationals buying shares and bonds in state-owned Russian financial institutions and restrictions on sales of energy and defence technologies to the country. There are signs that sanctions are beginning to be felt by companies with exposure to the country. Adidas issued a profit warning last week and Volkswagen reported that sales of cars in Russia have fallen by 8.0% in the first half of 2014 compared to the same time last year. Royal Dutch Shell and BP have also warned investors of the effects of sanctions on their bottom line.

In Latin America, Argentina defaulted on its debt for the second time in 13 years, as a US judge ruled it could not pay-out money to bond holders who agreed to a restructuring of the debt on which the country defaulted in 2001, without triggering pay-outs to those bondholders who had not agreed to the haircut. Market reaction to the news was muted as the default had been widely expected. Argentinian bonds make up only 2% of the JP Morgan EM bond index.

Elsewhere in fixed income markets, high yield (HY) bond funds continued to see outflows last week, with US HY declining by 1.4% and European HY down by 0.6% in euro terms. US treasuries were close to flat (-0.1%) following a week of mixed economic data, and UK Gilts added 0.4% in sterling terms. Emerging market bonds ended the week down by 1.4%. Once again, European government bonds hit record lows at the beginning of the week, with yields on German bunds falling to 1.1%, below the levels seen during the height of the euro zone crisis in July 2012. Elsewhere government bond yields in France and the Netherlands fell to 1.5% and 1.3% respectively, while yields on Spanish bonds fell to 2.5%.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 1 August 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-2.7%	-0.3%	5.0%	19.4%
United Kingdom	MSCI UK NR	GBP	-1.6%	-0.8%	1.1%	7.1%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.1%	-1.1%	2.2%	14.2%
Japan	Topix TR	JPY	0.0%	-0.6%	-0.5%	18.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.8%	-1.1%	9.6%	18.8%
Australia	S&P/ASX 200 TR	AUD	-0.5%	-1.4%	6.1%	12.2%
Global	MSCI World NR	USD	-2.4%	-0.5%	4.0%	17.9%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-3.6%	0.3%	-5.4%	2.0%
Emerging Asia	MSCI EM Asia NR	USD	-0.9%	-1.1%	9.2%	19.1%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.5%	0.8%	9.1%	15.7%
BRICs	MSCI BRIC NR	USD	-2.0%	-0.7%	7.2%	18.1%
MENA countries	Dow Jones MENA TR	USD	0.5%	0.0%	19.9%	32.3%
South Africa	MSCI EM South Africa NR USD	USD	-1.8%	0.2%	10.7%	21.8%
India	Nifty Fifty TR	USD	-3.9%	-1.8%	23.4%	53.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.7%	-0.5%	7.6%	16.7%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.1%	0.3%	3.4%	3.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.3%	0.2%	6.7%	5.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.3%	0.2%	5.8%	7.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-1.4%	-0.5%	3.5%	8.3%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.4%	0.6%	5.2%	4.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.0%	0.3%	5.5%	6.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1%	0.0%	8.0%	10.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.0%	5.4%	7.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.6%	0.0%	2.0%	12.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.0%	1.8%	2.6%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.3%	-0.1%	5.3%	5.5%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	0.4%	4.5%	5.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.2%	0.3%	4.1%	5.9%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.0%	-0.2%	3.1%	10.2%
Emerging Market Bonds	JP Morgan EMBI+	USD	-1.4%	-0.6%	8.9%	12.8%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	-1.7%	-0.2%	16.8%	19.3%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-1.0%	-1.8%	12.0%	9.3%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.8%	-1.1%	5.5%	11.0%
Global Property Securities	S&P Global Property USD TR	USD	-1.1%	-0.5%	11.9%	17.3%
Currencies						
Euro		USD	0.0%	0.3%	-2.3%	1.6%
UK Pound Sterling		USD	-0.9%	-0.4%	1.6%	8.5%
Japanese Yen		USD	-1.0%	0.0%	2.1%	-4.9%
Australian Dollar		USD	-0.9%	0.2%	4.5%	4.7%
South African Rand		USD	-1.6%	0.3%	-1.8%	-3.8%
Swiss Franc		USD	-0.1%	0.3%	-1.4%	2.6%
Chinese Yuan		USD	0.2%	-0.1%	-2.0%	-1.0%
Commodities & Alternatives						
Commodities	RICI TR	USD	-2.1%	-0.6%	-0.4%	-4.1%
Agricultural Commodities	RICI Agriculture TR	USD	-1.7%	-0.6%	-4.7%	-8.5%
Oil	ICE Crude Oil CR	USD	-1.4%	-1.1%	-5.1%	-8.6%
Gold	Gold Spot	USD	-1.1%	0.8%	7.3%	-7.3%
Hedge funds	HFRX Global Hedge Fund	USD	-0.8%	0.0%	0.9%	4.2%

* Estimate

Source: Bloomberg

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