Weekly Review

Week ending 5th July 2013

The release of the latest US employment figures on Friday triggered the biggest one day move in 10 year US treasury yields since the 2008-2009 financial crisis. The market had been expecting a number close to 165,000 for the headline employment figure (new jobs created by the economy over the past month, excluding farm workers) and 175,000 for private payrolls. In the event, both figures were substantially higher at 195,000 and 202,000 respectively. Fresh signs of the US economy running ahead of expectations have added fuel to the debate surrounding central bank 'tapering', with consensus forecasts for when markets might see the first rise in interest rates moving forward to September/October 2014. Friday's employment figures followed the better-than-expected ISM report for June published earlier in the week, which showed economic activity expanding at a faster rate than expected (50.9 versus 50.5); nonetheless, the report also featured the weakest employment sub component since September 2009, at 48.7.

Yields on 10 year US government bonds have now risen by 110 basis points (1.1%) in the past eight weeks. It remains to be seen how economies will react to rising yields, not just in the US but around the world given the role played by US yields in determining global interest rates. The S&P 500 managed to shrug off the effects of a higher discount rate, to post a gain of 1% on Friday. On the other hand emerging markets (and in particular emerging market debt) appear to be highly sensitive to speculation over tapering, with investors seeking to exit their positions.

The Bank of England and the European Central Bank (ECB) were both keen to distance themselves from Fed 'tapering' talk at their regular monthly press conferences on Thursday. Sterling fell by 1.4% versus the US dollar to end the week at 1.49 dollars to the pound, following comments from new head Mark Carney that recent rises in interest rate expectations are inconsistent with the state of the UK economy.

Recapping key developments earlier in the week, peripheral Europe outperformed the so-called 'core' with respect to Monday's PMI (Purchasing Managers' Index) data. Spain recorded a reading of 50, indicating no change in overall activity but nonetheless a better outcome than the 48.5 forecast by economists. Italy similarly outperformed consensus forecasts at 49.1 versus 47.8, its highest reading since July 2011, whilst France recorded a more modest beat of 48.4 versus 48.3 expected. In fixed income markets, Portuguese bonds continued to fall last week, with yields on the 10 year Portuguese government bond touching 7.3%, up by more than 210 basis points (2.1%) from their May lows. Greek bonds also spiked following reports that the country's creditors had issued an ultimatum to the government regarding certain conditions attached to its bailout programme; the reports were subsequently denied.

Global equities rose by 1.1% last week, led by Japan. The Topix index gained 4.8% to move back above 1,150 points, whilst the US dollar-yen exchange rate continued to march upwards (current rate 101.2). Brazilian equities suffered their biggest one-day fall since September 2001 on Tuesday, after the BOVESPA index slumped by 4.2%, to close at its lowest level since April 2009. The sell-off followed the release of lower than expected industrial production figures, which showed output contracting by 2% month-on-month in May (versus -1.1% expected). Stocks in emerging markets fell by 2.3% over the week, to bring year to date returns to -11.7%.

Elsewhere, government bonds underperformed credit last week, after the JP Morgan Global Government Bond index fell by 1.2% in US dollar terms. Property securities rose by 0.9%, led by UK property companies which rallied sharply (+5.3% in sterling terms), whilst the US dollar appreciated versus the majority of other currencies. Oil futures rose on the back of events in Egypt, where President Mohammed Morsi was placed under house arrest after being ousted by the military on Wednesday evening. Egypt's constitution has been suspended and the head of the Supreme Court sworn in as president.

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

Returns to 5 July 2013

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 5 July 2013	Month to date	YTD 2013	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.6%	-1.4%	15.3%	20.1%
United Kingdom	FTSE All Share TR	GBP	2.7%	-5.0%	11.4%	19.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.7%	-4.9%	5.4%	15.9%
Japan	Topix TR	JPY	4.8%	0.0%	39.8%*	65.1%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-0.2%	-5.9%	-4.8%	5.2%
Australia	S&P / ASX 200 NR	USD	0.8%	-2.3%	6.3%	18.7%
Global	MSCI World NR	USD	1.1%	-2.5%	9.6%	18.4%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-1.7%	-6.9%	-13.0%	-0.6%
Emerging Asia	MSCI EM Asia NR	USD	-1.6%	-5.9%	-8.1%	3.7%
India	Nifty Fifty NR	USD	-4.3%	-9.0%	-18.4%	-12.1%
Emerging Latin America	MSCI EM Latin America NR	USD	-2.4%	-8.1%	-14.7%	-4.0%
BRICs	MSCI BRIC NR	USD	2.0%	-1.7%	11.7%	14.6%
Mena countries	Dow Jones MENA TR	USD	-4.1%	-3.7%	-16.0%	-5.5%
South Africa	FTSE JSE All Share TR	USD	-1.3%	-7.1%	-9.7%	4.1%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-2.3%	-6.4%	-11.7%	-1.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-1.0%	-1.3%	-3.5%	-4.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.0%	-3.8%	-8.7%	-7.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.9%	-2.8%	-4.3%	-2.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.0%	-2.6%	1.4%	7.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.3%	-2.4%	-3.5%	-4.7%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.0%	-3.8%	-1.4%	2.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4%	-1.5%	0.5%	5.6%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	-1.6%	0.4%	5.3%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.9%	-1.8%	-0.3%	19.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.2%	0.0%	0.5%	0.5%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.3%	-1.4%	-0.6%	-0.2%
Global Government Bonds	JP Morgan Global GBI	USD	-1.2%	-0.7%	-7.0%	-7.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-1.2%	-1.0%	-5.5%	-3.7%
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.2%	-1.6%	5.6%	13.0%
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.2%	-5.3%	-9.5%	-4.3%

* *Estimate*

Source: Bloomberg, July 2013

Returns to 5 July 2013

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 5 July 2013	Month to date	YTD 2013	Estimate12 months
Property						
US Property Securities	MSCI US REIT NR	**USD**	0.1%	-2.1%	5.9%	5.9%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	5.3%	-4.3%	15.3%	24.5%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.2%	-7.0%	0.7%	7.8%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.6%	-0.9%	10.3%	18.5%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	1.8%	-1.9%	1.9%	18.5%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	0.9%	-2.7%	3.3%	11.3%
Currencies						
Euro		**USD**	-1.4%	0.1%	-2.8%	4.3%
UK Pound Sterling		**USD**	-2.1%	0.1%	-8.4%	-5.0%
Japanese Yen		**USD**	-2.0%	1.4%	-14.3%	-22.8%
Australian Dollar		**USD**	-0.8%	-4.6%	-12.8%	-13.7%
South African Rand		**USD**	-3.2%	2.1%	-17.0%	-19.0%
Swiss Franc		**USD**	-1.9%	1.1%	-5.0%	1.3%
Chinese Yuan		**USD**	0.1%	0.0%	1.6%	3.8%
Commodities & Alternatives						
Commodities	RICI TR	**USD**	2.2%	-2.3%	-5.1%	-3.5%
Agricultural Commodities	RICI Agriculture TR	**USD**	-0.3%	-4.2%	-8.3%	-14.8%
Oil	ICE Crude Oil CR	**USD**	2.7%	0.6%	-4.7%	-0.9%
Gold	Gold Index	**USD**	-0.9%	-11.0%	-27.0%	-24.2%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.1%*	-1.3%	3.2%*	5.0%*

* *Estimate*

Source: Bloomberg, July 2013

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