Market Weekly Review

Week ending **5 October 2014**

- European economic data disappoints
- US jobs numbers surprise on upside
- Credit markets wary of PIMCO outflows
- Protests in Hong Kong start to dwindle
- Brazilian election results force run-off

Global equities fell by 1.9% last week and shares in Europe fell by 2.1% in euro terms, as economic data coming from the continent disappointed investors. Euro area core inflation fell unexpectedly from 0.9% to 0.7% year-on-year. In Italy, the Consumer Price Index (CPI) was at -0.2% for the second consecutive month confirming a deflationary trend in Europe's third largest economy, and in France, Producer Price Inflation (PPI) came in below the consensus forecast of -0.5%, printing -1.4% year-on-year. Germany's manufacturing data indicated a contraction in output for the first time in over a year, with Markit's survey of purchasing managers printing 49.9 versus consensus forecasts of 50.3.

Following this bundle of disappointing data, expectations of a more accommodative European Central Bank (ECB) heightened as the week progressed. Mario Draghi, President of the ECB, disappointed markets, however, as he seemed to backtrack from earlier, dovish comments whilst answering questions at the ECB rates meeting on Thursday. Mr Draghi also announced that ECB interest rates are to remain at their current 0.05% level, and that the deposit rate will stay static at - 0.20%. As deflation continues to threaten the continent, pressure is building on the ECB to embark on full-scale quantitative easing, despite the euro continuing to fall. The 16th Geneva Report on the Global Economy (published last week) echoed this sentiment, warning of the potential for renewed political and social unrest were deflation to set in. Against the dollar, the euro fell by 1.3% last week.

On Friday, news broke that US non-farm payrolls rose by 248,000 last month comfortably, exceeding forecasts of a 215,000 increase and helping global, and in particular US bourses, to regain some of their weekly losses. August's reading was also revised upwards from 142,000 to 180,000 as the unemployment rate in the US fell from 6.1% to 5.9%. US equity markets jumped by over one percent, but finished the week down by 0.7%. The CBOE Vix index of implied volatility, the so-called 'Wall Street fear gauge', fell back below 15 following the news, after spiking to a multi-week high of 17.6. Gold fell by 2.2% to its lowest level this year, ending the week at circa USD 1,190 an ounce, as concerns about a sooner-than-expected interest rate hike continues to affect markets.

US Treasuries and UK Gilts benefitted from uncertainties around global growth, both adding 0.5% in their respective currencies last week. Concerns surrounding large redemptions from PIMCO's flagship Total Return Fund weighed on credit markets, as investors contemplate the potential for disruption following the shock departure of founder Bill Gross from the world's largest bond manager. Despite this uncertainty, US credit markets ended the week in positive territory on the back of the jobless numbers, with US corporate bonds returning 0.6% and US high yield bonds adding 0.7%. On the other hand, European high yield bonds fell by 1.7% last week; the asset class has now returned -5.0% year-to-date.

In Asia, markets were negatively affected by the continued pro-democracy protests in Hong Kong, with access to business and financial areas blocked off by demonstrators last week. Emerging Asian markets fell by 2.0%. Protests have been relatively peaceful to date, although Friday saw some clashes between pro- democracy protestors and those loyal to Beijing. The number of demonstrators dwindled significantly over the weekend, and civil servants were able to return to work on Monday as protestors stopped blocking access to government buildings. Several hundred activists remained on the ground, however, defying a deadline imposed by the government to leave the area by 06:00 Hong Kong time.

In Brazil, no single candidate won an outright majority in Sunday's national election, forcing a run-off between the incumbent Dilma Rousseff (who received 41.4% of the vote) and Aécio Neves (who received 33.7% of the vote). Support for the environmentalist Marina Silva collapsed as she received a mere 21.3% of the vote, despite polling well in recent weeks. Mr Neves surprised many by securing second place, with the centre-right candidate advocating a more business friendly agenda. The second round vote will be held on 26 October.

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

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 3 Oct. 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-0.7%	-0.2%	7.6%	13.6%
United Kingdom	MSCI UK NR	GBP	-1.8%	-1.4%	-0.5%	0.2%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.1%	-2.5%	4.0%	6.0%
Japan	Topix TR	JPY	-3.7%	-3.3%	0.3%	9.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.8%	-0.4%	3.2%	0.9%
Australia	S&P/ASX 200 TR	AUD	0.1%	0.5%	2.9%	2.4%
Global	MSCI World NR	USD	-1.9%	-1.3%	2.5%	6.5%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-3.6%	-2.3%	-14.2%	-19.5%
Emerging Asia	MSCI EM Asia NR	USD	-2.0%	-0.4%	4.7%	3.6%
Emerging Latin America	MSCI EM Latin America NR	USD	-4.6%	-1.3%	0.0%	-6.7%
BRICs	MSCI BRIC NR	USD	-3.3%	-0.2%	1.1%	-2.0%
MENA countries	Dow Jones MENA TR	USD	0.0%	-0.1%	25.2%	31.7%
South Africa	MSCI EM South Africa NR USD	USD	-1.9%	-0.9%	1.3%	-1.4%
India	Nifty Fifty TR	USD	-0.7%	0.1%	27.6%	27.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-2.6%	-0.8%	1.6%	-1.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.5%	0.4%	4.1%	2.5%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.3%	0.4%	4.5%	1.7%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.6%	0.6%	6.3%	5.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.7%	0.6%	4.1%	5.2%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	0.2%	7.8%	5.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.4%	0.2%	7.9%	6.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.1%	10.3%	10.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	0.0%	6.7%	6.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-1.7%	-0.9%	-5.0%	-2.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.0%	2.2%	1.7%
Australian Government	JP Morgan Australia GBI TR	AUD	0.3%	0.2%	6.2%	6.3%
Global Government Bonds	JP Morgan Global GBI	USD	-0.4%	-0.2%	1.4%	-0.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.4%	-0.2%	1.4%	0.1%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.8%	-1.1%	-1.7%	-0.7%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.9%	0.0%	7.2%	5.0%

* Estimate

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Property						
US Property Securities	MSCI US REIT NR	USD	-0.1%	0.5%	13.7%	7.7%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	0.7%	0.6%	10.4%	4.0%
Asia Property Securities	S&P Asia Property 40 NR	USD	-3.8%	-1.9%	-3.7%	-5.7%
Global Property Securities	S&P Global Property USD TR	USD	-1.7%	-0.9%	5.8%	1.8%
Currencies						
Euro		USD	-1.3%	-0.9%	-8.9%	-7.9%
UK Pound Sterling		USD	-1.7%	-1.5%	-3.5%	-0.4%
Japanese Yen		USD	0.0%	0.0%	-4.2%	-10.8%
Australian Dollar		USD	-1.0%	-0.8%	-2.7%	-8.3%
South African Rand		USD	-1.1%	-0.7%	-7.7%	-11.6%
Swiss Franc		USD	-1.7%	-1.3%	-7.7%	-6.3%
Chinese Yuan		USD	-0.2%	0.0%	-1.3%	-0.7%
Commodities & Alternatives						
Commodities	RICI TR	USD	-1.7%	-0.9%	-8.2%	-7.8%
Agricultural Commodities	RICI Agriculture TR	USD	0.9%	0.8%	-11.5%	-12.3%
Oil	ICE Crude Oil CR	USD	-4.5%	-4.3%	-17.2%	-15.6%
Gold	Gold Spot	USD	-2.2%	-1.4%	-1.2%	-10.0%
Hedge funds	HFRX Global Hedge Fund	USD	-1.0%	-0.8%	0.4%	1.5%

* Estimate

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

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Important notes