FP FINANCIAL PARTNERS

momentum

Market Weekly Review

Week ending 6 April 2014

- US payrolls disappointment triggers late sell-off in equities
- Yellen in 'dovish' mood at the start of the week
- Global government bonds fall back
- ECB hints at quantitative easing
- Sellside warns over high yield prices

The release of Friday's payrolls report in the US appeared to be the main factor behind a late sell-off in developed market equities last week, with the S&P 500 index declining by 1.3% on the day. Developed markets finished the week in positive territory (MSCI World index +0.9%), led by Japan (+2.5% in yen terms). Emerging market equities' run of nine consecutive positive days came to an end on Thursday. Nevertheless, emerging markets added 1.8% last week after stocks in Emerging Europe rallied by 3.9% and plans for a new round of infrastructure spending in China helped the Shanghai Composite to gains of 0.9%.

Comments from Federal Reserve Chair Janet Yellen at an interagency development conference at the start of the week were considered 'dovish' by investors, helping fuel early gains for equities. Yellen spoke at length about unemployment and more importantly underemployment, characterised by above average numbers of workers on part time contracts, a high proportion of long term unemployed and low wage growth. As long as the economy is operating below its potential level, the central bank is expected to hold back from any meaningful tightening of monetary policy. To that end, March's ADP employment report showed 191,000 new jobs being added to the US economy last month, marginally behind consensus expectations at 195,000. This was followed by Friday's disappointing nonfarm payrolls number, which registered 192,000 versus 200,000 expected, although the negative data surprise was partially offset by net revisions of +37,000 to the previous two months' numbers. Given the apparent trend in 2013 of weak data catalysing gains for equities - based on the assumption that central bankers would step in to provide more liquidity - it was interesting to see the market's reaction to this latest disappointment, with large technology names Google, Microsoft and Apple bearing the brunt of investors' selling.

Global government bonds fell by 0.2% last week, principally as a result of currency weakness outside of the US dollar (euro -0.3%; sterling -0.4%; yen -0.4%). Italian 10 year government bond yields fell by 13 basis points after the European Central Bank left the door open to quantitative easing in the single currency area. Meanwhile Spanish five year government bond yields dipped below their US equivalents, the first time Spanish bonds have been considered a more attractive bet than Treasuries since 2007, according to Bloomberg.

As widely expected the European Central Bank (ECB) left its main refinancing rate on hold at 0.25% at its regular monthly meeting on Thursday, while hinting at the possibility of more unorthodox measures to come. In his post-meeting statement, ECB President Mario Draghi emphasised the Governing Council's commitment to using "unconventional instruments within its mandate to cope effectively with risks of a too prolonged period of low inflation". It remains to be seen what format, if any, an asset purchase programme in the euro area would take. Earlier in the week inflation in the region fell to its lowest level since October 2009, at 0.5% year-on-year to the end of March.

The Financial Times featured an article last week in which it quoted 'sellside' analysts - analysts whose job it is to promote bonds to investors - advising that yields on some high yield bonds have reached levels at which purchasers are no longer adequately compensated for the risks. Average spreads on US high yield debt over equivalent maturity government bonds are now hovering at their lowest levels since 2005, according to Barclay's US Corporate High Yield index. US high yield bonds returned 0.3% last week, while European high yield debt was flat in euro terms.

Elsewhere in markets, commodities declined by 0.3% over the week, with crude oil prices falling by 2.3%. Meanwhile global property securities outperformed the broader equity market with gains of 2.2%, after Asian listed property rallied by 4.9%.

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

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 4 April 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.4%	-0.4%	1.3%	18.4%
United Kingdom	MSCI UK NR	GBP	1.2%	1.5%	0.0%	7.3%
Continental Europe	MSCI Europe ex UK NR	EUR	1.8%	1.4%	5.0%	18.7%
Japan	Topix TR	JPY	2.5%	1.1%	-5.7%*	6.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.9%	1.1%	2.1%	1.0%
Australia	S&P/ASX 200 TR	AUD	1.1%	0.5%	2.6%	9.1%
Global	MSCI World NR	USD	0.9%	0.2%	1.4%	15.6%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	3.9%	1.0%	-5.6%	-6.8%
Emerging Asia	MSCI EM Asia NR	USD	1.5%	0.8%	0.5%	2.3%
Emerging Latin America	MSCI EM Latin America NR	USD	2.7%	1.3%	1.7%	-12.4%
BRICs	MSCI BRIC NR	USD	1.8%	0.6%	-2.3%	-4.2%
MENA countries	Dow Jones MENA TR	USD	1.5%	1.6%	14.0%	33.3%
South Africa	MSCI EM South Africa NR USD	USD	0.2%	-0.6%	3.8%	-8.4%
India	Nifty Fifty TR	USD	0.0%	-0.1%	9.9%	2.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.8%	0.8%	0.4%	-1.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.0%	0.0%	1.6%	-2.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.0%	0.1%	2.3%	-7.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2%	0.2%	3.2%	-0.1%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	0.2%	3.2%	5.9%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	0.5%	2.9%	-3.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.4%	0.5%	2.9%	-0.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.3%	4.2%	3.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.2%	2.5%	3.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.0%	-0.3%	2.7%	13.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.1%	0.9%	1.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.3%	-0.2%	1.0%	-0.6%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	-0.2%	2.5%	-0.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.1%	-0.1%	2.3%	0.8%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.6%	0.2%	3.9%	12.5%
Emerging Market Bonds	JP Morgan EMBI+	USD	1.1%	0.8%	4.3%	-4.4%

* Estimate

Source: Bloomberg

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Asset Class/Region	Index	Currency	Currency returns			
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Property						
US Property Securities	MSCI US REIT NR	USD	1.4%	0.6%	10.3%	-2.8%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.0%	0.4%	2.5%	-8.0%
Asia Property Securities	S&P Asia Property 40 NR	USD	4.9%	3.3%	-3.1%	-10.9%
Global Property Securities	S&P Global Property USD TR	USD	2.2%	1.3%	4.8%	-4.6%
Currencies						
Euro		USD	-0.3%	-0.5%	-0.3%	4.1%
UK Pound Sterling		USD	-0.4%	-0.5%	0.1%	6.7%
Japanese Yen		USD	-0.4%	0.0%	1.9%	-5.7%
Australian Dollar		USD	0.5%	0.3%	4.2%	-10.4%
South African Rand		USD	0.2%	-0.3%	-0.5%	-15.1%
Swiss Franc		USD	-0.6%	-0.8%	0.1%	4.2%
Chinese Yuan		USD	0.0%	0.1%	-2.5%	-0.7%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.3%	-0.2%	4.7%	3.5%
Agricultural Commodities	RICI Agriculture TR	USD	-0.8%	-1.1%	11.1%	0.6%
Oil	ICE Crude Oil CR	USD	-2.3%	-2.8%	-5.9%	1.5%
Gold	Gold Spot	USD	0.6%	1.5%	8.1%	-11.7%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%*	0.2%*	1.3%*	4.2%*

* Estimate

Source: Bloomberg

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

Financial Partners Ltd.
泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk
A Member of Wealthnet

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