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Market Weekly Review

Week ending **7 September 2014**

- ECB announces rate cuts and 'private' Quantitative Easing
- Sterling falls as Scottish nationalists gain ground
- Ukrainian peace plan announced
- Japanese Prime Minister unveils new cabinet
- Chinese manufacturing data reassures markets

Global equities were flat last week, rising by a modest 0.1% in US dollar terms. In the US, equities added 0.2% over a shortened four-day week, with markets closed on Monday for Labour Day. Energy stocks weighed on the broader market, as the industry struggles with a slump in oil prices. The UK saw equities add a modest 0.5% in sterling terms, with the pound declining by 1.6% against the dollar. Pressure on sterling came as a respected poll suggested for the first time that Scottish voters are leaning towards a 'Yes' vote in the upcoming independence referendum.

European equities received a boost, after the European Central Bank (ECB) announced new plans to combat the threat of deflation on the continent, and hopes for a solution to the conflict in Ukraine increased. As expected, Mario Draghi, the ECB president, introduced 'private' Quantitative Easing (QE) at the Governing Council meeting last week. The ECB will buy large amounts of asset-backed securities (ABS) and covered bonds from European banks, in an effort to free up capital and boost inflation. Mr Draghi also surprised many investors by cutting the bank's main refinancing rate to 0.05%, and by taking its deposit rate further into negative territory; the ECB now charges banks 0.2% to deposit cash at the bank. European equity bourses added 2.2% in euro terms, and the euro depreciated by 1.4% against the greenback.

The announcement by Mr Draghi follows continued disappointing economic data from the single currency area. The August Markit manufacturing Purchasing Manager's Index (PMI) was revised down slightly to 50.7 last week, its lowest level in over a year. In Spain, the PMI printed 52.8 versus consensus expectations of 53.3, and Italy's figure fell to 49.8. This is the first time since June 2013 that the indicator has printed below 50 in Italy, indicating a contraction in the overall level of manufacturing activity.

In fixed income markets, the disparity between European monetary policy and that of the US and the UK is becoming more pronounced. The strong economic data that continues to come out of the US is weighing on fixed income markets, as expectations rise that the Federal Reserve will turn more hawkish. US Treasuries and US corporate bonds fell by 0.6% and 0.9%, respectively. The US Institute for Supply Management (ISM) manufacturing index surprised on the upside last week, registering 59.0 versus 57.0 expected, while soft pay-roll numbers on Friday did little to change the course of markets towards the end of the week.

Geopolitics continues to affect markets, as US President, Barack Obama, announced a "core coalition" of countries to go on the offensive against Islamic State militants in Iraq and potentially Syria. In Ukraine, a tentative cease-fire was agreed on Friday as government officials and rebels signed a 12-point peace plan in Minsk, Belarus. The plan was met with some skepticism by Western leaders, as they came together for a Nato summit in Wales, and renewed bombing over the weekend has now called the plan into question.

In Asia, Japanese Prime Minister, Shinzo Abe, reshuffled his cabinet last week, promoting the free market Chief Cabinet Secretary, Yasuhisa Shiozaki, to Welfare Minister. As part of his new role, Mr Shiozaki is charged with overseeing the country's JPY 127 trillion (USD 1.2 trillion) Government Pension Investment Fund (GPIF), with many commentators' expecting him to advocate an increased exposure to Japanese equities and a reduction in the GPIF's holding of Japanese bonds. It was also noted that the promotion of two members of parliament with close ties to China may signal an attempt to improve strained ties with Beijing. Japanese equities added 1.2% in yen terms last week.

Elsewhere in Asia, positive non-manufacturing figures assuaged fears of a disruptive slowdown in the Chinese economy. The official non-manufacturing PMI rose from 54.2 to 54.4 and the HSBC China Services PMI added 4.1 points from last month to print at 54.1. News that the Chinese government is easing credit restrictions for some "well-established" property developers also helped markets, as authorities draw up plans to allow select companies access to China's intra-bank bond market.

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

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 5 Sept. 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.2%	0.2%	9.7%	21.0%
United Kingdom	MSCI UK NR	GBP	0.5%	0.5%	4.5%	9.8%
Continental Europe	MSCI Europe ex UK NR	EUR	2.2%	2.2%	7.8%	14.5%
Japan	Topix TR	JPY	1.2%	1.2%	0.5%	9.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.5%	0.5%	12.3%	14.8%
Australia	S&P/ASX 200 TR	AUD	-0.2%	-0.2%	8.1%	11.8%
Global	MSCI World NR	USD	0.1%	0.1%	6.9%	15.5%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	4.1%	4.1%	-2.9%	-4.4%
Emerging Asia	MSCI EM Asia NR	USD	0.6%	0.6%	12.3%	16.5%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.4%	-0.4%	16.5%	13.8%
BRICs	MSCI BRIC NR	USD	1.9%	1.9%	13.5%	15.4%
MENA countries	Dow Jones MENA TR	USD	1.4%	1.4%	27.3%	36.7%
South Africa	MSCI EM South Africa NR USD	USD	1.6%	1.6%	14.4%	17.0%
India	Nifty Fifty TR	USD	2.3%	2.3%	33.1%	48.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.9%	0.9%	11.6%	13.6%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.6%	-0.6%	3.8%	2.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.9%	-0.9%	6.1%	3.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.9%	-0.9%	6.2%	7.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.4%	-0.4%	5.2%	9.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.1%	-1.1%	7.1%	5.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.7%	-0.7%	7.4%	7.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1%	0.1%	10.2%	11.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	0.2%	6.7%	7.8%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-1.6%	-1.6%	-0.7%	5.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.2%	-0.2%	2.0%	2.2%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.7%	-0.7%	5.8%	5.5%
Global Government Bonds	JP Morgan Global GBI	USD	-1.1%	-1.1%	3.6%	2.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-1.0%	-1.0%	3.3%	3.1%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.2%	-0.2%	3.1%	6.1%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.2%	-0.2%	9.8%	10.5%

* Estimate

Source: Bloomberg

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 5 Sept. 2014	Month to date	YTD 2014	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	1.0%	1.0%	21.6%	20.4%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	0.0%	0.0%	16.0%	12.1%
Asia Property Securities	S&P Asia Property 40 NR	USD	1.0%	1.0%	5.5%	3.5%
Global Property Securities	S&P Global Property USD TR	USD	0.5%	0.5%	14.4%	13.5%
Currencies						
Euro		USD	-1.4%	-1.4%	-5.8%	-4.3%
UK Pound Sterling		USD	-1.6%	-1.6%	-1.4%	0.9%
Japanese Yen		USD	-1.0%	-1.0%	0.0%	-6.9%
Australian Dollar		USD	0.4%	0.4%	5.2%	0.7%
South African Rand		USD	-0.2%	-0.2%	-1.9%	-6.2%
Swiss Franc		USD	-1.4%	-1.4%	-4.1%	-2.8%
Chinese Yuan		USD	0.1%	0.1%	-1.4%	-0.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	-1.8%	-1.8%	-2.6%	-3.9%
Agricultural Commodities	RICI Agriculture TR	USD	-1.5%	-1.5%	-6.6%	-9.7%
Oil	ICE Crude Oil CR	USD	-0.3%	-0.3%	-8.5%	-6.2%
Gold	Gold Spot	USD	-1.5%	-1.5%	5.2%	-4.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.2%	0.9%	1.8%	5.1%

* Estimate

Source: Bloomberg

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Important notes