

Market Weekly Review

Week ending 10 January 2014

The first full week of 2014 saw global developed markets continue last year's outperformance of their emerging counterparts, with returns of 0.6% and -0.9% respectively in US dollar terms.

In the US, equity markets and US treasuries both returned 0.6%, following a week dominated by payrolls data and the minutes of the Federal Open Market Committee's (FOMC) December meeting. The minutes, released on Wednesday, revealed two important changes: in an attempt to make monetary policy more effective, members agreed to shift emphasis away from employment to inflation targeting, and decided to focus on the overnight repurchase rate in addition to the more commonly cited Federal Funds Rate. Payrolls numbers for December were distorted by last month's bout of bad weather, showing an increase of just 74,000 new positions, far below the 197,000 positions expected by analysts. The unemployment rate, however, fell from 7.0% to 6.7% (a five year low) in spite of the weaker jobs report, as more people dropped out of the labour force. The country's service sector also experienced a slight slowdown in December, after the final version of the Markit monthly US services Purchasing Managers Index fell to 55.7 from November's reading of 55.9.

The European Central Bank (ECB) left interest rates unchanged at their meeting on Thursday. In a press conference following the meeting, ECB President, Mario Draghi, reassured investors that the ECB would still be able to "take further action" using "all available tools" to spur a weak recovery, whilst at the same time emphasising that the ECB doesn't foresee deflation - like that seen in Japan - in the Eurozone. The European Union (EU) statistics agency, Eurostat, also reported that the unemployment rate remained stable at 12.1% in the EU in November, with 19.2 million people out of work across the Union.

In the UK, equity markets returned 0.1% after weaker than expected data from the Office for National Statistics

(ONS) dampened optimism of a UK recovery. Output for manufacturing and industrial production remained flat in November, whilst the construction sector shrank by 4.0% during the month, marking its largest fall since June 2012. Retail sales also struggled, as shoppers spent 1.8% more in December compared to last year, lower than the 2.3% annual growth rate seen in November, according to the British Retail Consortium. The ONS did, however, provide some more upbeat news after announcing a narrowing of the trade deficit to GBP 9.4bn, compared to GBP 9.7bn in October, helped by an increase exports to the recovering economies within the EU. Car sales are also reported to have returned to pre-recession levels, despite a fall across most European markets, as vehicles sold increased by 10.5% in 2013 helped by cheaper credit and improved consumer confidence.

In Asia, India's central bank announced new rules allowing non banking finance companies (NBFCs) to lend up to 75% of their gold (up from 60%), in an attempt to increase the money supply in the region. Meanwhile in China, trade - according to figures released by the Chinese government on Friday - grew at an annual rate of 7.6% to USD 4.2 trillion on a renminbi adjusted basis. This is likely to leave China as the largest trading nation, surpassing the US, which despite not having released their 2013 trade figures has traded only USD 3.5 trillion in the first 11 months of 2013 in comparison.

Many emerging markets struggled last week, with equities in emerging Europe, Asia and the BRIC quartet returning -0.7%, -0.8% and -1.5% in US dollar terms respectively. Returns from fixed income securities were generally positive, however, with global bonds (0.7%), global emerging market bonds (0.2%) and global convertible bonds (1.4%) all providing positive returns over the week.

Global property securities returned 0.5%, whilst commodities fell by 0.6%, following a fall in the price of oil (-1.7%) and agricultural commodities (-0.5%).

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 10 Jan 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.6%	-0.3%	-0.3%	24.8%
United Kingdom	MSCI UK NR	GBP	0.1%	-0.2%	-0.2%	10.9%
Continental Europe	MSCI Europe ex UK NR	EUR	1.0%	0.6%	0.6%	18.3%
Japan	Topix TR	JPY	-0.3%*	-0.3%*	-0.3%*	40.8%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-0.4%	-0.7%	-0.7%	-0.2%
Australia	S&P/ASX 200 TR	AUD	-0.7%	-0.7%	-0.7%	13.7%
Global	MSCI World NR	USD	0.6%	-0.3%	-0.3%	20.1%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-0.7%	-2.1%	-2.1%	-9.9%
Emerging Asia	MSCI EM Asia NR	USD	-0.8%	-3.4%	-3.4%	-2.5%
Emerging Latin America	MSCI EM Latin America NR	USD	-1.1%	-3.2%	-3.2%	-19.1%
BRICs	MSCI BRIC NR	USD	-1.5%	-3.6%	-3.6%	-10.8%
MENA countries	Dow Jones MENA TR	USD	1.1%	2.1%	2.1%	23.9%
South Africa	MSCI EM South Africa NR USD	USD	-1.1%	-5.1%	-5.1%	-19.6%
India	Nifty Fifty TR	USD	0.5%	-1.5%	-1.5%	-10.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.9%	-3.2%	-3.2%	-7.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.6%	0.7%	0.7%	-1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.2%	1.6%	1.6%	-7.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.8%	1.0%	1.0%	0.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5%	0.7%	0.7%	6.7%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.9%	1.0%	1.0%	-1.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.1%	1.4%	1.4%	3.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.7%	0.7%	3.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.5%	0.5%	0.5%	4.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.8%	-0.1%	-0.1%	11.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.3%	0.3%	2.3%
Australian Government	JP Morgan Australia GBI TR	AUD	0.2%	-0.1%	-0.1%	0.4%
Global Government Bonds	JP Morgan Global GBI	USD	0.7%	0.6%	0.6%	-2.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.7%	0.4%	0.4%	-0.9%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.4%	0.9%	0.9%	16.0%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.2%	0.2%	0.2%	-6.2%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	1.7%	2.3%	2.3%	-0.1%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.2%	2.1%	2.1%	-0.9%
Asia Property Securities	S&P Asia Property 40 NR	USD	-1.1%	-1.7%	-1.7%	1.7%
Global Property Securities	S&P Global Property USD TR	USD	0.5%	0.4%	0.4%	0.6%
Currencies						
Euro		USD	0.6%	-0.5%	-0.5%	0.7%
UK Pound Sterling		USD	0.4%	-0.4%	-0.4%	3.9%
Japanese Yen		USD	0.7%	1.1%	1.1%	-12.0%
Australian Dollar		USD	0.6%	0.9%	0.9%	-13.7%
South African Rand		USD	1.0%	-1.4%	-1.4%	-15.9%
Swiss Franc		USD	0.3%	-1.1%	-1.1%	0.8%
Chinese Yuan		USD	0.0%	0.1%	0.1%	2.8%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.6%	-2.5%	-2.5%	-10.4%
Agricultural Commodities	RICI Agriculture TR	USD	-0.5%	-1.3%	-1.3%	-14.7%
Oil	ICE Crude Oil CR	USD	-1.7%	-3.6%	-3.6%	-6.4%
Gold	Gold Spot	USD	0.9%	3.5%	3.5%	-25.0%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%*	0.2%*	0.2%*	4.9%

* Estimate

Source: Bloomberg

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