

Market Weekly Review

Week ending 10 August 2014

- Geopolitics dominate markets
- Russia imposes tit-for-tat sanctions on West
- Italy returns to recession
- Chinese services data disappoint
- Emerging market equities fall

Geopolitical concerns dominated markets last week as US President, Barack Obama, announced airstrikes against Islamic State militants in Iraq, and the troubles in Gaza continued. US stock markets regained some poise on Friday, amid reports that Russian warplanes had stopped military exercises over the Ukraine, but the situation across all these regions remains unpredictable. The S&P 500 gained 0.4% over the week, but global equities lost 0.8% in US dollar terms.

Tit-for-tat sanctions between Russia and the West weighed on continental European stocks which ended the week down 2.2%, in euro terms. Following broader sanctions imposed on Russia by the European Union (EU) and US last week, Russian President, Vladimir Putin, announced retaliatory sanctions on food and agricultural items imported from countries including EU member states, the US and Australia. European equities are now flat year-to-date in euro terms.

Last week saw Italy fall back into recession as it posted a negative GDP number for a second consecutive quarter. Markets forecasted 0.1% quarter-on-quarter growth, but the Italian economy contracted by 0.2%. In northern Europe, Germany's factory order numbers also disappointed, reading -3.2% month-on-month versus an expected growth of 0.9%. Emerging Europe continues to be negatively affected by geopolitical events in Ukraine, ending the week down 3.9% in US dollar terms. European Purchasing Manager Index (PMI) data bucked the trend, however, and the euro area composite PMI printed its second highest number in three years, rising from 52.8 in June to 53.8 in July.

In China, the HSBC Chinese services PMI read 50.0, which was significantly lower than June's 53.1. HSBC's Chief Economist for China stated that it likely reflects the "on-going property slowdown in many cities". Following this news and against a backdrop of increasing geopolitical concern, emerging market (EM) equities declined last week. Solid economic data out of the US including higher than expected factory orders (+1.1% versus forecasts of +0.6%) and non-manufacturing numbers from the Institute of Supply Management (58.7 versus a consensus number of 56.5) are starting to heighten expectations of a US rate hike, which is also weighing on EM markets. Global emerging markets were marked down by 1.3%, and Latin America and emerging Asia equities fell by 1.6% and 1.1%, respectively.

As geopolitical concerns occupied markets, US Treasuries added 0.4% last week, and UK gilts rose by 1.2% in sterling terms. As a consequence of the reduction in the government (reference) rate, US high yield bonds regained some losses adding 0.5%, but their month-to-date return is still negative at -0.1%. European high yield bonds fell by 0.9% in euro terms. Outflows from US high yield funds continue, and European funds are now also starting to see significant outflows. Deutsche Bank note that this is the fifth consecutive week of outflows from US high yield funds, and that year-to-date, cumulative flows are in negative territory at -3.2% of assets under management (AUM).

Gold has reacted modestly to rising geopolitical tensions over the past months, but added 1.4% last week. Crude oil fell despite the tensions in the Middle East, ending the week -1.4% and has fallen by 2.5% month-to-date.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 8 August 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.4%	0.1%	5.4%	19.9%
United Kingdom	MSCI UK NR	GBP	-1.4%	-2.2%	-0.3%	5.6%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.2%	-3.3%	0.0%	11.7%
Japan	Topix TR	JPY	-4.1%	-4.7%	-4.6%	13.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.6%	-2.6%	7.9%	16.9%
Australia	S&P/ASX 200 TR	AUD	-2.2%	-3.5%	3.8%	9.7%
Global	MSCI World NR	USD	-0.8%	-1.3%	3.1%	16.9%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-3.9%	-3.6%	-9.1%	-2.0%
Emerging Asia	MSCI EM Asia NR	USD	-1.1%	-2.2%	8.1%	17.9%
Emerging Latin America	MSCI EM Latin America NR	USD	-1.6%	-0.8%	7.4%	13.9%
BRICs	MSCI BRIC NR	USD	-1.3%	-2.0%	5.9%	16.6%
MENA countries	Dow Jones MENA TR	USD	1.7%	1.7%	21.9%	34.5%
South Africa	MSCI EM South Africa NR USD	USD	-0.2%	0.0%	10.5%	21.6%
India	Nifty Fifty TR	USD	-0.7%	-2.5%	22.5%	52.4%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.3%	-1.9%	6.2%	15.2%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4%	0.7%	3.8%	3.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.5%	0.6%	7.2%	6.4%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3%	0.5%	6.1%	8.1%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5%	-0.1%	4.0%	8.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.2%	1.8%	6.5%	5.7%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.8%	1.1%	6.4%	7.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.3%	8.3%	10.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.1%	5.5%	7.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.9%	-0.9%	1.0%	11.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2%	0.2%	2.0%	2.7%
Australian Government	JP Morgan Australia GBI TR	AUD	1.3%	1.2%	6.6%	6.9%
Global Government Bonds	JP Morgan Global GBI	USD	0.4%	0.8%	5.0%	5.6%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.3%	0.6%	4.5%	6.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.7%	-0.9%	2.3%	9.4%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.7%	-1.3%	8.2%	12.0%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	0.2%	0.0%	17.1%	19.5%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-1.7%	-3.5%	10.1%	7.4%
Asia Property Securities	S&P Asia Property 40 NR	USD	-3.4%	-4.4%	2.0%	7.3%
Global Property Securities	S&P Global Property USD TR	USD	-1.2%	-1.7%	10.6%	15.9%
Currencies						
Euro		USD	-0.2%	0.1%	-2.4%	1.4%
UK Pound Sterling		USD	-0.3%	-0.7%	1.3%	8.2%
Japanese Yen		USD	1.0%	1.0%	3.2%	-3.9%
Australian Dollar		USD	-0.4%	-0.2%	4.0%	4.2%
South African Rand		USD	0.2%	0.5%	-1.6%	-3.6%
Swiss Franc		USD	0.1%	0.4%	-1.4%	2.7%
Chinese Yuan		USD	0.4%	0.3%	-1.6%	-0.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.4%	-0.2%	0.0%	-3.7%
Agricultural Commodities	RICI Agriculture TR	USD	0.3%	-0.3%	-4.4%	-8.2%
Oil	ICE Crude Oil CR	USD	-1.4%	-2.5%	-6.5%	-9.9%
Gold	Gold Spot	USD	1.4%	2.2%	8.7%	-6.0%
Hedge funds	HFRX Global Hedge Fund	USD	-0.5%	-0.8%	0.1%	3.4%

* Estimate

Source: Bloomberg

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