Market Weekly Review

Week ending **12 October 2014**

- Global equities sell off
- German manufacturing data disappoints
- US Treasuries rally following publication of Fed minutes
- Emerging markets growth slows
- Hong Kong protest talks falter

Equities sold off last week across both developed and emerging markets, as the International Monetary Fund (IMF) downgraded its global growth forecast in its semi-annual "Global Financial Stability Report".

European equities fell by 4.4% in euro terms to take them to a seven-month low, and have now been marked down by 6.7% in euro terms month-to-date. The S&P 500 closed at its lowest level for over four months on Friday, down by 3.1% over the week, while UK equities fell by 2.8% in sterling terms.

Brent crude oil continues to move lower, falling by 1.8% last week to drop below USD 90 a barrel for the first time since 2012. Demand for oil is softening in Europe and China, but supply remains resilient despite the geopolitical uncertainty in the Middle East.

The Vix index of implied volatility, seen as a gauge of investor anxiety, spiked to its highest level since February, as markets reacted to the IMF's report and disappointing industrial production numbers from Germany. Europe's largest economy saw output fall by 4.0% (versus consensus forecasts of -1.5%) in August, and factory orders slumped by 5.7% (versus consensus expectations for a 2.5% drop). The numbers represent the largest combined fall for these economic indicators since January 2009. German exporters are suffering the effects of slowing growth in the euro area and China, while sanctions imposed on Russia are also weighing on the domestic economy. The disappointing data was partly explained by the summer holiday cycle which resulted in car factories being closed simultaneously, but the releases are not inconsistent with earlier data prints which have also pointed to a slowdown in the German economy.

In the US, Treasuries gained 0.8% as markets pushed back expectations for the first hike in US interest rates. In the face of slowing global growth, minutes from the Federal Reserve's (Fed's) September FOMC meeting revealed fears that the US recovery may be negatively affected by economic problems elsewhere. Fed officials continue to state that there will be "considerable time" between the end of its asset purchase programme and the first interest rate rise, but issued no further clarification in their latest minutes. Inflation remains below the Fed's target of 2%, however, which arguably leaves the central bank with room to defer rate hikes if deemed necessary. The US dollar fell by circa 1% last week, but is still up by 7.3% since July versus a basket of major currencies.

Emerging market (EM) equities also fell last week, with Emerging Europe declining by 2.0% and Emerging Asia ending the week down by 1.2%. A report by Capital Economics claims that industrial output across 19 EM countries has fallen to its lowest level since 2009, and consumer spending has fallen to similar lows. Emerging market exports have also been week. Capital Economics? aggregate EM growth rate for July fell to 4.3% from 4.5% in June, and the research firm expects August's figures to be weaker still. Emerging Asia has been relatively resilient compared to other EM markets, but Capital Economics warns of the effect that a Chinese slowdown will have on the area. The Word Bank downgraded its growth forecast for China last week, from 7.6% to 7.4% for this year. It expects growth in China to fall to 7.2% in 2015 and 7.1% in 2016.

In Hong Kong, talks between pro-democracy protestors and Hong Kong's authorities broke down on Thursday, and demonstrators returned to the streets over the weekend. On Monday morning, police began to remove barricades in the central districts to allow workers to get through, but have moved away from their earlier heavy-handed tactics which drew criticism from local residents. The situation looks to have calmed down since the escalation in tensions a couple of weeks ago, with the number of protestors diminishing, but the situation is still fluid with Hong Kong's leader CY Leung refusing to rule out the use of force to break up protests.

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

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 10 Oct. 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-3.1%	-3.3%	4.3%	10.0%
United Kingdom	MSCI UK NR	GBP	-2.8%	-4.1%	-3.2%	-2.6%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.4%	-6.7%	-0.5%	1.4%
Japan	Topix TR	JPY	-3.1%	-6.3%	-2.7%	6.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.1%	-1.4%	2.1%	-0.2%
Australia	S&P/ASX 200 TR	AUD	-2.4%	-2.0%	0.4%	-0.1%
Global	MSCI World NR	USD	-2.9%	-4.2%	-0.5%	3.5%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-2.0%	-4.2%	-15.9%	-21.1%
Emerging Asia	MSCI EM Asia NR	USD	-1.2%	-1.7%	3.5%	2.3%
Emerging Latin America	MSCI EM Latin America NR	USD	1.7%	0.4%	1.7%	-5.2%
BRICs	MSCI BRIC NR	USD	0.8%	0.5%	1.8%	-1.2%
MENA countries	Dow Jones MENA TR	USD	-0.1%	-0.2%	25.0%	31.5%
South Africa	MSCI EM South Africa NR USD	USD	-0.8%	-1.7%	0.5%	-2.2%
India	Nifty Fifty TR	USD	-0.2%	-0.1%	27.4%	27.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.7%	-1.5%	0.9%	-2.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.8%	1.2%	4.9%	3.4%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.2%	1.6%	5.8%	3.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.7%	1.4%	7.0%	6.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.8%	-0.2%	3.2%	4.3%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.4%	1.6%	9.3%	6.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.1%	1.3%	9.1%	7.2%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1%	0.2%	10.4%	10.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	0.2%	6.9%	6.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.6%	-0.3%	-4.4%	-1.4%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.1%	2.3%	1.8%
Australian Government	JP Morgan Australia GBI TR	AUD	0.7%	0.9%	7.0%	7.0%
Global Government Bonds	JP Morgan Global GBI	USD	1.2%	1.0%	2.6%	0.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.0%	0.8%	2.4%	1.1%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.5%	-2.6%	-3.2%	-2.2%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.5%	0.5%	7.7%	5.5%

* Estimate

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Property						
US Property Securities	MSCI US REIT NR	USD	1.7%	2.2%	15.6%	9.5%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	0.0%	0.6%	10.3%	3.9%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.8%	-1.1%	-2.9%	-4.9%
Global Property Securities	S&P Global Property USD TR	USD	0.8%	-0.1%	6.7%	2.6%
Currencies						
Euro		USD	0.9%	0.0%	-8.1%	-7.0%
UK Pound Sterling		USD	0.7%	-0.8%	-2.9%	0.2%
Japanese Yen		USD	1.1%	1.1%	-3.2%	-9.8%
Australian Dollar		USD	0.1%	-0.7%	-2.6%	-8.1%
South African Rand		USD	2.2%	1.5%	-5.7%	-9.6%
Swiss Franc		USD	1.1%	-0.2%	-6.7%	-5.3%
Chinese Yuan		USD	0.1%	0.1%	-1.2%	-0.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.3%	-1.2%	-8.4%	-8.0%
Agricultural Commodities	RICI Agriculture TR	USD	1.9%	2.8%	-9.8%	-10.6%
Oil	ICE Crude Oil CR	USD	-1.8%	-5.9%	-18.7%	-17.1%
Gold	Gold Spot	USD	2.7%	1.2%	1.4%	-7.6%
Hedge funds	HFRX Global Hedge Fund	USD	-1.4%	-1.6%	-0.5%	0.6%

* Estimate

Source: Bloomberg

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Important notes