

Market Weekly Review

Week ending **14 September 2014**

- Scottish independence vote too close to call
- Emerging markets weaken on expectations of a more hawkish Fed
- Geopolitics continues to weigh on markets
- Oil price falls further as demand weakens
- China sees factory output slowing

UK equities fell by 1.2% in sterling terms last week as markets started to price in the possibility of a 'Yes' vote in Scotland's independence referendum on Thursday. Sterling also weakened against the dollar, depreciating by -0.5%. Following the release of a number of polls last week, consensus opinion suggests that the outcome is now too close to call, in particular as half a million Scots are still undecided. The 'Yes' vote has certainly been gaining momentum since the start of the year, and in particular over the past few weeks; the 'No' campaign, on the other hand, still marginally leads in the majority of polls.

In the US, equities were flat, as investors await this week's much anticipated Federal Reserve Open Market Committee (FOMC) meeting. Market expectations of a more hawkish Federal Reserve (Fed) have been increasing, despite the release of weaker than expected jobs data two weeks ago. As it stands, Quantitative Easing (QE) in the US will come to an end in October, and bond markets are keen to learn how much time will pass between the end of QE and the first rise in interest rates. Janet Yellen, Chair of the Fed's Board of Governors, has previously commented that there would be "considerable time" before rates start to go up, which has largely been interpreted as meaning mid-2015. Strong economic data releases over the past few months may lead Ms Yellen to adopt a more hawkish stance at this week's meeting, however. Notably, the San Francisco Federal Reserve released a report last week arguing that markets are being complacent with regards to interest rate increases. US high yield (HY) bonds ended the week down by 0.8%, as flows out of US HY bond funds picked up once more; US corporate bonds fell by 0.5% and US Treasuries fell by 0.3%.

The prospect of tighter monetary policy in the US also weighed on emerging markets (EM). EM equities, boosted in recent years by loose monetary policy, fell by 2.7%. Equities in emerging Asia fell by 2.0% and Latin American stocks plunged 4.6%. EM currencies also fell, with the South African rand falling by 2.1% against the greenback, to reach its lowest level since February.

Geopolitical concerns heightened once again last week, with the European Union and the US both announcing new sanctions on Russia, targeting financial, defence and energy firms, including Gazprom. On Wednesday, US President, Barack Obama, also announced that the US will engage in a military effort to halt Islamic State (IS) militants in Iraq and Syria, and over the weekend UK Prime Minister, David Cameron, was put under pressure to act following the murder of a British aid worker in Iraq by IS fighters.

Despite this geopolitical backdrop, the price of oil continues to fall. The International Energy Agency (IEA) released a report last week arguing that this is largely a reflection of falling demand. The IEA announced a downward revision to its demand forecasts for 2014/2015, as Europe's lacklustre growth rates and a slowdown in China both weigh on demand for the commodity. The price of Brent crude has now fallen from a recent high in June of USD 115, to USD 97 at the end of last week.

Over the weekend, China released a weak set of economic data, including disappointing industrial production figures which registered 6.9% year-on-year versus 8.8% expected. The measure of factory output in China is now at its lowest level since the financial crisis, putting pressure on the 7.5% growth target set by China's authorities. The Chinese National Bureau for Statistics noted weak global demand and pressures on the domestic housing sector as the root causes of the slowdown. Chinese retail sales rose by 11.9% in August, also missing forecasts for growth of 12.1% year-on-year.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 12 Sept. 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.0%	-0.2%	9.2%	20.5%
United Kingdom	MSCI UK NR	GBP	-1.2%	-0.3%	3.6%	8.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.0%	1.4%	7.0%	13.6%
Japan	Topix TR	JPY	1.1%	2.6%	1.9%	11.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.4%	-1.5%	10.0%	12.5%
Australia	S&P/ASX 200 TR	AUD	-1.3%	-0.9%	7.3%	10.9%
Global	MSCI World NR	USD	-0.6%	-0.6%	6.1%	14.6%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-2.5%	1.0%	-5.8%	-7.3%
Emerging Asia	MSCI EM Asia NR	USD	-2.0%	-1.0%	10.5%	14.5%
Emerging Latin America	MSCI EM Latin America NR	USD	-4.6%	-4.6%	11.6%	8.9%
BRICs	MSCI BRIC NR	USD	-3.2%	-1.2%	10.1%	12.0%
MENA countries	Dow Jones MENA TR	USD	-0.4%	1.0%	26.7%	36.1%
South Africa	MSCI EM South Africa NR USD	USD	-4.7%	-2.5%	9.8%	12.3%
India	Nifty Fifty TR	USD	-0.8%	1.3%	31.8%	46.9%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-2.7%	-1.6%	8.9%	10.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.3%	-0.9%	3.5%	2.5%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.8%	-1.5%	5.4%	3.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.5%	-1.3%	5.8%	7.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.8%	-1.0%	4.6%	8.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.3%	-1.6%	6.6%	5.0%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.1%	-0.9%	7.2%	7.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5%	-0.7%	9.3%	10.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	0.0%	6.6%	7.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.2%	-1.8%	-0.9%	4.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.3%	-0.4%	1.7%	1.9%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.8%	-1.3%	5.2%	4.8%
Global Government Bonds	JP Morgan Global GBI	USD	-0.9%	-2.1%	2.5%	1.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.7%	-1.8%	2.5%	2.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.8%	-1.0%	2.3%	5.3%
Emerging Market Bonds	JP Morgan EMBI+	USD	-1.0%	-1.1%	8.8%	9.5%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	-1.1%	-1.2%	19.0%	17.8%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-2.9%	-2.1%	13.5%	9.7%
Asia Property Securities	S&P Asia Property 40 NR	USD	-2.3%	-0.9%	3.5%	1.6%
Global Property Securities	S&P Global Property USD TR	USD	-1.9%	-1.6%	12.0%	11.1%
Currencies						
Euro		USD	-0.2%	-1.6%	-6.0%	-4.5%
UK Pound Sterling		USD	-0.5%	-2.1%	-1.8%	0.4%
Japanese Yen		USD	-2.1%	-3.1%	-2.1%	-8.8%
Australian Dollar		USD	-2.7%	-2.6%	2.1%	-2.3%
South African Rand		USD	-2.1%	-2.8%	-4.4%	-8.6%
Swiss Franc		USD	-0.4%	-1.9%	-4.6%	-3.3%
Chinese Yuan		USD	0.1%	0.3%	-1.2%	-0.2%
Commodities & Alternatives						
Commodities	RICI TR	USD	-2.2%	-3.8%	-4.6%	-5.8%
Agricultural Commodities	RICI Agriculture TR	USD	-1.4%	-3.5%	-8.5%	-11.5%
Oil	ICE Crude Oil CR	USD	-3.2%	-3.9%	-11.8%	-9.7%
Gold	Gold Spot	USD	-1.7%	-3.6%	2.9%	-6.6%
Hedge funds	HFRX Global Hedge Fund	USD	-0.1%	0.1%	2.0%	4.4%

* Estimate

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