

# Market Weekly Review

## Week ending 16 February 2014

- Global equities gather momentum
- Japanese data disappoints
- Investor sentiment on China improving
- Fed Chair Yellen committed to gradual reduction in QE
- Italian Prime Minister Letta set to resign
- US companies ahead in fourth quarter earnings season

Developed market equities gathered momentum last week, rising on each of the five days to end the period up by 2.4%. Emerging markets followed a similar path, albeit with higher volatility, with gains of 2.2%. Following a run of seven consecutive positive sessions the S&P 500 index is now only 0.3% behind for the year, having fallen by as much as 5.7% to the start of this month. UK equities are down by 1.1% for the year, while European equities are 2% ahead (returns in local currency terms).

Elsewhere in markets, global government bonds added 0.3% last week, despite US Treasuries (-0.2%) and UK Gilts (-0.5% in sterling terms) both falling back. Global property securities added 1.7% led by Australia, while commodities rose by 1.4% to take their year to date gains to 2.3%.

Japan remains the big laggard amongst the majors year to date, down by over 9% in yen terms. The country continues to run a large trade deficit, despite the improvement in its competitiveness versus the rest of the world by virtue of the depreciation of the yen. Although it is common to see a country's trade balance worsen in the short term following a change in its exchange rate, in time exports should begin to rise rapidly leading to a positive balance of trade. In Japan's case, the persistence of the trade deficit has led to fears over structural problems, including the relocation of Japanese manufacturing abroad. Fourth quarter GDP published over the weekend underwhelmed at 0.3% quarter-on-quarter, compared to 0.7% expected by the market.

Australia was the best performing developed market last week, up by 3.7% in Australian dollar terms, helped in part by positive data from China. Chinese exports grew by 10.6% year-on-year in January versus expectations for a 0.1% rise. Meanwhile imports grew by 10% year-on-year (4% expected), resulting in a USD 31.9 billion trade surplus in January.

Chinese imports of crude oil, iron ore and copper were at all time highs for this time of year, according to Customs data, offering a timely boost to commodity exporters such as Australia. Question marks have been raised about seasonality in China's trade data and potential over-invoicing by companies. Over the weekend data on Chinese credit conditions showed a reasonably benign credit environment along with a shift in emphasis away from riskier parts of the shadow banking sector.

In the US, new Federal Reserve Chair, Janet Yellen, delivered her first testimony on Tuesday. She endorsed the policies of her predecessor, Ben Bernanke, and committed to following today's path for a gradual reduction in the rate of quantitative easing. The US central bank will remain accommodative, according to Yellen, but it would take a dramatic change in the outlook for the economy to delay the current timetable for tapering. Yellen restated her concerns over the quality of the recovery in the labour market, emphasising that behind the headline unemployment rate there are a growing number of workers who have been unemployed for longer than six months and a high proportion settling for part time jobs in the absence of full time opportunities. More bad weather in the States last week continued to make it difficult for policymakers to gauge the current health of the US economy.

According to Bloomberg, Italian Prime Minister Enrico Letta plans to bow to pressure from within his party and resign today, making way for Democratic Party leader and mayor of Florence Matteo Renzi. If given the mandate to form a new government by President Giorgio Napolitano, Renzi will become Italy's ninth Prime Minister since 1992, with only two of those being elected directly into the job. Italian bond yields were little moved last week, as news of Mr. Letta's likely resignation broke.

Finally, an update on US earnings season. With 400 of the companies listed on the S&P 500 having filed their financial statements, 64% and 75% have surpassed analysts' expectations for sales and earnings respectively. In Europe, the beat-miss ratio currently stands at closer to 50:50 for both top line revenue and earnings.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 14 Feb 2014	Month to date	YTD 2014	12 months
<b>Developed Market Equities</b>						
United States	S&P 500 NR	USD	2.4%	3.3%	-0.3%	23.1%
United Kingdom	MSCI UK NR	GBP	1.6%	2.5%	-1.1%	8.0%
Continental Europe	MSCI Europe ex UK NR	EUR	2.3%	3.6%	2.0%	19.0%
Japan	Topix TR	JPY	-0.4%	-3.0%	-9.1%*	23.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	2.8%	2.7%	-2.5%	-2.7%
Australia	S&P/ASX 200 TR	AUD	3.7%	3.3%	0.2%	8.9%
Global	MSCI World NR	USD	2.4%	3.3%	-0.5%	19.7%
<b>Emerging Market Equities</b>						
Emerging Europe	MSCI EM Europe NR	USD	1.5%	5.4%	-4.2%	-7.6%
Emerging Asia	MSCI EM Asia NR	USD	2.2%	1.3%	-3.6%	-2.7%
Emerging Latin America	MSCI EM Latin America NR	USD	1.7%	3.0%	-6.7%	-19.9%
BRICs	MSCI BRIC NR	USD	1.6%	1.7%	-6.1%	-9.2%
MENA countries	Dow Jones MENA TR	USD	1.8%	2.4%	6.5%	29.9%
South Africa	MSCI EM South Africa NR USD	USD	6.2%	7.8%	-8.5%	-20.2%
India	Nifty Fifty TR	USD	0.1%	0.5%	-4.0%	-5.4%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.2%	2.3%	-4.4%	-6.9%
<b>Bonds</b>						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.2%	-0.1%	1.5%	-1.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.4%	-0.3%	1.9%	-6.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.1%	0.2%	2.0%	0.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5%	0.8%	1.5%	7.1%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.5%	-0.5%	1.7%	-1.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.4%	-0.5%	1.8%	2.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.1%	0.0%	2.3%	4.8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.2%	1.5%	3.9%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.9%	2.3%	0.7%	15.9%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2%	0.2%	1.1%	2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.2%	-0.5%	0.8%	0.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.3%	0.6%	2.3%	0.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.3%	0.7%	1.8%	1.5%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	1.5%	2.3%	2.1%	13.8%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.3%	1.4%	-0.3%	-6.4%

\* Estimate

Source: Bloomberg

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<b>Property</b>						
US Property Securities	MSCI US REIT NR	USD	2.1%	2.9%	7.3%	3.6%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	3.0%	2.7%	3.2%	-2.4%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.2%	-0.6%	-7.1%	-4.5%
Global Property Securities	S&P Global Property USD TR	USD	1.7%	2.4%	1.5%	0.9%
<b>Currencies</b>						
Euro		USD	0.4%	1.5%	-0.4%	4.9%
UK Pound Sterling		USD	2.0%	1.9%	1.1%	10.4%
Japanese Yen		USD	0.6%	0.2%	3.4%	-9.1%
Australian Dollar		USD	0.8%	3.2%	1.3%	-11.6%
South African Rand		USD	1.9%	2.4%	-3.4%	-16.9%
Swiss Franc		USD	0.6%	1.5%	0.0%	4.9%
Chinese Yuan		USD	0.0%	-0.1%	-0.2%	2.6%
<b>Commodities &amp; Alternatives</b>						
Commodities	RICI TR	USD	1.4%	3.6%	2.3%	-2.1%
Agricultural Commodities	RICI Agriculture TR	USD	1.4%	3.5%	2.6%	-8.4%
Oil	ICE Crude Oil CR	USD	1.5%	0.5%	-2.6%	-3.5%
Gold	Gold Spot	USD	4.1%	6.0%	9.4%	-16.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%*	0.6%*	0.3%*	4.5%*

\* Estimate

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

**Financial Partners Ltd.**

泛柏資產管理有限公司  
24/F, Kinwick Centre  
32 Hollywood Road  
Central, Hong Kong

Tel +852 2827 1199

Fax +852 2827 0270

[client.services@f-p.hk](mailto:client.services@f-p.hk)

[www.f-p.hk](http://www.f-p.hk)

A Member of Wealthnet

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