

# Market Weekly Review

Week ending 17 August 2014

- Violence escalates in Ukraine and Iraq
- Euro area GDP disappoints
- German 10 year bund yield falls below 1%
- UK produces conflicting employment data
- Japan GDP falls by 6.8% year-on-year

Global equity markets recovered some of their recent losses last week, despite continued geopolitical concerns and disappointing growth figures in Europe. Expectations of disruption to the global oil supply remain muted with crude oil falling by 2.3% last week, and gold falling by 0.5% despite the increasing risk of escalation.

There was a brief spike in volatility on Friday, however, as news broke that the Ukrainian army had destroyed part of a Russian military convoy that had crossed the border, but as markets closed in the US, the S&P 500 was flat on the day and ended the week having gained 1.3%. Global equities added 1.5% and emerging market stocks rose 2.8% over the week in USD terms.

In Europe, equities added 1.4% in euro terms, despite announcements that euro area GDP was unchanged in the second quarter of this year and that inflation had fallen to a four and a half year low of 0.4% year-on-year. Industrial production printed below expectations, falling by 0.3% month-on-month versus the consensus forecast of a 0.4% increase.

The German economy, which accounts for almost a third of the euro area's GDP, shrank 0.2% in Q2, as voices urging the European Central Bank to take more aggressive stimulus measures grow louder. France, Europe's second largest economy, saw GDP stay flat over the same period. Europe's periphery saw some relatively encouraging data releases, however, with Greek GDP reading -0.2% year-on-year, versus an expected -0.5%, putting it on course for a potential return to growth this year.

Against this backdrop, yields on German 10-year government bonds fell below one percent for the first time and ended the week at 0.95%. This shift to a remarkably low level helped euro government bonds return 0.8% last week, in euro terms. US treasuries also had a solid week adding 0.5% and UK gilts returned 0.7% in sterling terms. As flows out of high yield funds slow, US high yield bonds returned 1.1% last week, and in the investment grade universe, US investment grade bonds added 0.6% and European investment grade bonds added 0.5% in euro terms.

In the UK, which continues to see sturdy growth, unemployment fell by 0.1% to 6.4% in the second quarter of this year, but three month average weekly wage numbers (including bonuses) disappointed, falling 0.2% year-on-year versus an expected drop of 0.1%. As the two main political parties in the UK position themselves for next year's general election, the debate around jobs versus earnings growth may intensify and prove to be important debate in winning over the electorate.

In Japan, the much awaited second quarter GDP figure was announced last week. Output fell by 6.8% on an annualised basis, following the sales tax hike in April and the artificially high GDP figures in Q1, as consumers and businesses brought forward spending. Markets had expected a drop of 7.0% and were therefore relatively unfazed by the data, despite the drop being significantly more severe than Japanese Prime Minister, Shinzo Abe, had predicted when he first mooted the plan to raise the tax. Mr Abe will now have to carefully consider whether to go ahead with the second proposed hike of 2.0% in October 2015, to bring the sales tax in Japan to 10%. Japanese equities added 3.5% in yen terms last week, and Asia Pacific equities gained 2.7%.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 15 August 2014	Month to date	YTD 2014	12 months
<b>Developed Market Equities</b>						
United States	S&P 500 NR	USD	1.3%	1.4%	6.7%	21.4%
United Kingdom	MSCI UK NR	GBP	2.1%	-0.1%	1.8%	7.8%
Continental Europe	MSCI Europe ex UK NR	EUR	1.4%	-2.0%	1.4%	13.3%
Japan	Topix TR	JPY	3.5%	-1.5%	-1.3%	17.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	2.7%	0.0%	10.8%	20.0%
Australia	S&P/ASX 200 TR	AUD	2.5%	-1.1%	6.4%	12.4%
Global	MSCI World NR	USD	1.5%	0.1%	4.6%	18.6%
<b>Emerging Market Equities</b>						
Emerging Europe	MSCI EM Europe NR	USD	3.5%	-0.2%	-5.9%	1.5%
Emerging Asia	MSCI EM Asia NR	USD	2.9%	0.6%	11.2%	21.3%
Emerging Latin America	MSCI EM Latin America NR	USD	3.0%	2.1%	10.6%	17.3%
BRICs	MSCI BRIC NR	USD	3.5%	1.4%	9.6%	20.7%
MENA countries	Dow Jones MENA TR	USD	0.8%	2.5%	22.9%	35.6%
South Africa	MSCI EM South Africa NR USD	USD	1.4%	1.5%	12.1%	23.4%
India	Nifty Fifty TR	USD	3.5%	0.9%	26.7%	57.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.8%	0.9%	9.2%	18.4%
<b>Bonds</b>						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.5%	1.2%	4.3%	4.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.4%	1.0%	7.5%	6.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.6%	1.1%	6.8%	8.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.1%	1.0%	5.1%	9.9%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.7%	2.5%	7.2%	6.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.7%	1.8%	7.1%	8.0%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.8%	1.1%	9.2%	11.3%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.5%	0.6%	5.9%	7.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.6%	-0.3%	1.7%	11.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.2%	2.0%	2.8%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.5%	0.7%	6.1%	6.3%
Global Government Bonds	JP Morgan Global GBI	USD	0.2%	1.1%	5.3%	5.9%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.3%	0.9%	4.8%	6.6%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.9%	0.0%	3.3%	10.4%
Emerging Market Bonds	JP Morgan EMBI+	USD	1.2%	-0.1%	9.4%	13.3%

\* Estimate

Source: Bloomberg

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<b>Property</b>						
US Property Securities	MSCI US REIT NR	USD	1.6%	1.6%	18.9%	21.4%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	4.3%	0.7%	14.8%	12.1%
Asia Property Securities	S&P Asia Property 40 NR	USD	2.5%	-2.0%	4.6%	10.0%
Global Property Securities	S&P Global Property USD TR	USD	2.2%	0.5%	13.0%	18.5%
<b>Currencies</b>						
Euro		USD	-0.10%	0.1%	-2.5%	1.3%
UK Pound Sterling		USD	-0.50%	-1.1%	0.8%	7.7%
Japanese Yen		USD	-1.00%	0.0%	2.1%	-4.9%
Australian Dollar		USD	0.50%	0.3%	4.5%	4.7%
South African Rand		USD	0.60%	1.2%	-0.9%	-3.0%
Swiss Franc		USD	0.30%	0.7%	-1.1%	3.0%
Chinese Yuan		USD	0.00%	0.3%	-1.6%	-0.6%
<b>Commodities &amp; Alternatives</b>						
Commodities	RICI TR	USD	-1.3%	-1.5%	-1.3%	-5.0%
Agricultural Commodities	RICI Agriculture TR	USD	-0.6%	-0.9%	-4.9%	-8.8%
Oil	ICE Crude Oil CR	USD	-2.3%	-4.8%	-8.6%	-12.0%
Gold	Gold Spot	USD	-0.5%	1.7%	8.2%	-6.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.7%	0.0%	0.9%	4.2%

\* Estimate

Source: Bloomberg

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