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Market Weekly Review

Week ending 18 October 2013

Global equity markets rallied at the end of last week, returning 2.6% in US dollar terms during the last three sessions, after a last minute cross-party agreemen prevented the US government from defaulting on its debt obligations, following 16 days of partia government shutdown. The Senate's deal, which passed through the House of Representatives with a majority of 285 -144 votes, left "Obamacare" relatively intact and tasked a committee of legislators with finding and presenting a long term budget solution to Congress by mid December. Despite funding the government to the 15th January and raising the debt ceiling to the 7th February, the measures have, according to IMF head Christine Lagarde, failed to lift the debt ceiling in a "durable manner" in order to "reduce uncertainty surrounding the conduct of fiscal policy". Credit ratings agency, Fitch, placed the US's AAA Sovereign on Ratings Watch Negative last week, highlighting the brinkmanship politics and the country's reduced financial flexibility as the main reasons behind its decision. Nevertheless, markets responded positively to news of the deal, with US Treasury yields falling to at an eleven week low of 2.578% and the S&P 500 index reaching an all time high of 1744.50, both on Friday.

In Europe, the two day Europgroup/ECOFIN meeting held at the beginning of the week saw Vice President of the European Commission, Olli Rehn, highlight the improving fundamentals of the Irish and Spanish economies and describe their programmes as "on track for a successful conclusion". Members also discussed extra funding provisions for Greece, albeit at lower levels than seen in the past (less than EUR 10 billion) and evaluated the need to shore up the region's banks' ahead of next year's the asset review by European Central Bank.

A free trade deal between the European Union (EU) and Canada was agreed in Brussels on Friday, which is expected to increase bilateral trade in goods and services by a fifth to EUR 25.7 billion a year. Those close to the deal hope its impact will rival the North American Free Trade Agreement (NAFTA), signed between the US and Mexico in 1994.

In the UK, equity markets rose by 2.1% in sterling terms last week, helped by better than expected retail sales, housing and unemployment data from the Office for National Statistics (ONS). Based on a monthly survey of 5,000 UK retailers, retail sales increased by 0.6% in September from a month ago, whilst the ONS house price index reached a new high of 185.8 in August, surpassing its previous high of 185.5 back in January. Adding to the positive sentiment, unemployment figures for the period June to August fell by 18,000 to 2.49 million, with the number of people claiming Jobseeker's Allowance also dropping by 41,700 to 1.35 million. Inflation, as measured by the Consumer Price Index, remained unchanged at 2.7% in September, above wage growth which averaged 1.1% over the same period.

In Asia, markets rallied by 3.1% in US dollar terms over the week, spurred by the progress made in the US and strong third quarter economic growth in China. Chinese GDP grew by 7.8% year-on-year in Q3, up 0.3% from last quarter's reading and putting the economy back on track to reach its annual growth target. Industrial production rose by 10.2% over the 12 months to the end of September, with retail sales increasing by 13.3% and fixed investment rising by 20.2%.

China is set to open its doors to UK investors, after UK Chancellor George Osbourne announced a GBP 8 billion pilot scheme aimed at giving London based investors access to the Chinese renminbi, in order to invest directly in Chinese shares and bonds rather than going via Hong Kong, as is currently required.

Developed equity markets continued to rally last week, bringing year to date returns to 21.5% in US dollar terms. Bond yields continued to move around over the week, but US treasuries ended the week marginally higher, up by 0.5% to outperform both UK Gilts and Euro Government bonds.

The dollar depreciated against most of the major currencies, with the Euro (+1.1%) and UK Pound (+1.3%) making ground. Finally, global property securities continued to move higher, up by 2.4% over the week, whilst commodities returned 0.4% following mixed returns from gold (3.5%) and oil (-0.8%).

Source: Bloomberg. Returns in US dollars unless otherwise stated. October 2013

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 18 Oct 2013	Month to date	YTD 2013	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	2.4%	3.8%	23.8%	25.4%
United Kingdom	FTSE All Share TR	GBP	2.1%	2.5%	15.6%	18.6%
Continental Europe	MSCI Europe ex UK NR	EUR	2.0%	3.1%	18.6%	24.2%
Japan	Topix TR	JPY	0.7%	1.0%	42.7%*	65.5%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	3.1%	4.7%	10.2%	14.9%
Australia	S&P / ASX 200 TR	AUD	1.7%	2.0%	18.5%	23.1%
Global	MSCI World NR	USD	2.6%	3.6%	21.5%	25.4%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	2.1%	6.3%	3.2%	10.3%
Emerging Asia	MSCI EM Asia NR	USD	1.5%	5.4%	3.7%	10.3%
Emerging Latin America	MSCI EM Latin America NR	USD	2.1%	5.5%	-6.4%	-2.0%
BRICs	MSCI BRIC NR	USD	1.5%	5.5%	0.1%	5.8%
MENA countries	Dow Jones MENA TR	USD	0.1%	1.0%	18.2%	18.3%
South Africa	FTSE JSE All Share TR	USD	5.4%	9.6%	-15.1%	-5.3%
India	Nifty Fifty TR	USD	1.3%	10.6%	-5.0%	-1.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.9%	5.6%	1.0%	7.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.5%	0.3%	-2.2%	-2.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.4%*	0.2%*	-7.1%*	-7.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.8%	1.1%	-1.5%	-1.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.9%	1.7%	5.5%	8.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.0%	-0.1%	-2.8%	-2.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.5%	0.9%	1.7%	3.2%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.4%	1.5%	3.8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	0.4%	1.8%	3.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.6%	2.8%	11.8%	18.6%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.6%	2.6%	2.5%
Australian Government	JP Morgan Australia GBI TR	AUD	0.2%	-0.9%	-0.5%	-0.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.9%	0.8%	-2.5%	-3.6%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.9%	0.8%	-2.5%	-3.6%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.5%	2.0%	15.0%	18.4%
Emerging Market Bonds	JP Morgan EMBI +	USD	1.3%	2.7%	-6.5%	-4.0%

* Estimate

Source: Bloomberg, October 2013

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 18 Oct 2013	Month to date	YTD 2013	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	2.8%	5.6%	8.0%	11.3%
Australian Property Securities	S&P/ASX 200 Australia TR	AUD	1.3%	2.8%	7.5%	7.5%
Asia Property Securities	S&P Asia Property NR USD	USD	0.9%	2.0%	10.7%	22.0%
Global Property Securities	S&P Global Property TR USD	USD	2.4%	4.3%	9.0%	15.2%
Currencies						
Euro		USD	1.1%	1.2%	3.7%	5.6%
UK Pound Sterling		USD	1.3%	-0.1%	-0.5%	0.2%
Japanese Yen		USD	0.8%	0.5%	-11.3%	-18.4%
Australian Dollar		USD	2.2%	3.9%	-6.9%	-6.7%
South African Rand		USD	1.1%	2.4%	-13.4%	-11.4%
Swiss Franc		USD	1.1%	0.4%	1.5%	3.3%
Chinese Yuan		USD	0.4%	0.4%	2.2%	2.3%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.4%	0.8%	-2.4%	-1.5%
Agricultural Commodities	RICI Agriculture TR	USD	1.1%	0.9%	-7.2%	-10.8%
Oil	ICE Crude Oil CR	USD	-0.8%	0.8%	-0.8%	0.3%
Gold	Gold Spot	USD	-3.5%	-1.0%	-21.4%	-23.5%
Hedge Funds	HFRX Global Hedge Fund	USD	0.5%8	0.9%*	5.3%*	6.7%*

* Estimate

Source: Bloomberg, October 2013

Important notes

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