

Market Weekly Review

Week ending 20 July 2014

- Global equities subdued in the face of geopolitical risk
- US earnings surprise on the upside
- Confidence returns to peripheral Europe
- Fed Chair remains dovish
- China sees growth accelerate

Against the backdrop of two key geopolitical events involving the downing of a commercial airliner over Ukraine and the escalation of violence between Israel and Palestine, global equities ended last week up by a modest 0.5%. Equities fell on Thursday following news that Malaysian Airlines flight MH17 had been shot down, and amid concerns that the terrible event could have wider implications amongst the international community, but rallied on Friday amid positive earnings reports from the US. Equities in emerging Europe suffered most, falling by 2.6% in US dollar terms over the week, but the S&P 500 added 0.6% and UK equities rose by 0.9% in sterling terms. Global emerging markets added 0.6%, as India's main equity bourse gained 2.4% to bring its year-to-date gains to 25.6%.

As reporting season gathers pace on both sides of the Atlantic, major US financials released their earnings last week and reported stronger than expected results, with JP Morgan, Citigroup, Bank of America Merrill Lynch and Goldman Sachs all surpassing analysts' expectations. In the US, 82 S&P 500 companies have now released earnings, with circa 75% beating consensus forecasts. This week provides an opportunity for the trend to continue, with around 150 S&P 500 companies reporting their earnings, including the major technology companies.

In Continental Europe, equity markets added 0.6% in euro terms, as investor concerns over Espirito Santo International (ESI) delaying repayments on its debt subsided. Deutsche Bank argues that the Portuguese government is in a position to bailout the bank if necessary, and the risk of contagion across the euro area remains minimal at this stage. European government bonds added 0.5% in euro terms, whereas European high yield bonds ended the week down by 0.7% in euros.

US high yield bonds also lost ground (-0.5%) as Janet Yellen, Chair of the US Federal Reserve, continued to express concerns about the asset class. US Treasuries added 0.1% last week and in the UK Gilts gained 0.5% in sterling terms. Global government bonds ended the week flat, while the broad JPM Emerging Market Bond index declined by 0.2%. Global convertible bonds fell 0.2% last week and are now off by 1.3% month-to-date. On a 12 month basis they remain in positive territory, however, with gains of 10.7%.

Janet Yellen made two high profile public appearances last week, testifying before the Senate Banking Committee and the House Financial Services Committee. The Fed Chair remained dovish, highlighting that there continues to be "significant slack" in the US labour market with a "slow pace of growth in most measures of hourly compensation". Ms Yellen also emphasised that although unemployment rates were down, participation rates remain very low compared to historic standards. She also commented on "substantially stretched valuations" in the biotechnology and social media sectors, which weighed on equities within these industries at the start of the week.

In China, Q2 economic growth hit 7.5% year-on-year, rising from 7.4% in the first quarter and showing a stabilisation of growth rates in the world's second largest economy. This is the first time in three quarters that the growth rate in China has accelerated, and follows the mini economic stimulus introduced by China's authorities earlier in the year. Furthermore, June's industrial data surprised on the upside, with output growing by 9.2% year-on-year versus 9.0% expected. Retail sales disappointed, however, at 12.4% versus 12.5% expected.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 18 July 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.6%	1.0%	7.9%	19.0%
United Kingdom	MSCI UK NR	GBP	0.9%	0.2%	2.1%	5.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.6%	-1.4%	4.9%	16.0%
Japan	Topix TR	JPY	0.6%	0.1%	-1.9%*	13.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.6%	1.5%	8.7%	16.8%
Australia	S&P/ASX 200 TR	AUD	0.8%	2.5%	5.6%	14.4%
Global	MSCI World NR	USD	0.5%	0.1%	6.3%	18.0%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-2.6%	-2.2%	-1.9%	3.4%
Emerging Asia	MSCI EM Asia NR	USD	0.6%	1.3%	8.3%	16.7%
Emerging Latin America	MSCI EM Latin America NR	USD	2.2%	4.1%	11.6%	14.7%
BRICs	MSCI BRIC NR	USD	0.9%	2.2%	6.9%	16.5%
MENA countries	Dow Jones MENA TR	USD	1.0%	5.9%	17.5%	27.5%
South Africa	MSCI EM South Africa NR USD	USD	1.6%	0.9%	9.1%	11.3%
India	Nifty Fifty TR	USD	2.4%	0.4%	25.6%	36.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.6%	1.6%	7.9%	15.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.1%	0.1%	3.4%	2.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.0%	0.3%	6.6%	4.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2%	0.2%	5.9%	7.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.5%	-0.6%	4.8%	9.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	1.1%	4.6%	2.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.4%	0.7%	5.4%	5.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.5%	0.6%	7.6%	9.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.3%	5.1%	6.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.7%	-1.6%	2.9%	12.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.2%	1.8%	3.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.2%	1.0%	6.0%	5.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.0%	-0.1%	4.9%	5.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.1%	-0.2%	4.5%	5.8%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.2%	-1.3%	4.0%	10.7%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.2%	0.5%	10.0%	10.6%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	1.4%	2.2%	19.6%	13.6%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.1%	3.2%	12.1%	8.1%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.8%	1.5%	3.4%	8.9%
Global Property Securities	S&P Global Property USD TR	USD	1.0%	1.6%	13.0%	13.7%
Currencies						
Euro		USD	-0.6%	-1.2%	-1.6%	1.7%
UK Pound Sterling		USD	-0.2%	-0.1%	3.2%	12.3%
Japanese Yen		USD	0.0%	0.0%	3.9%	-3.4%
Australian Dollar		USD	0.0%	-0.4%	5.3%	4.6%
South African Rand		USD	0.6%	-0.1%	-1.3%	-7.3%
Swiss Franc		USD	-0.7%	-1.3%	-0.6%	3.1%
Chinese Yuan		USD	-0.1%	-0.1%	-2.5%	-1.3%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.4%	-3.7%	1.7%	1.2%
Agricultural Commodities	RICI Agriculture TR	USD	-0.1%	-5.8%	-2.6%	-5.1%
Oil	ICE Crude Oil CR	USD	-0.3%	-5.2%	-3.6%	0.3%
Gold	Gold Spot	USD	-2.1%	-1.2%	8.7%	-1.1%
Hedge funds	HFRX Global Hedge Fund	USD	0.0%*	-0.6%*	1.2%*	3.7%*

* Estimate

Source: Bloomberg

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