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Market Weekly Review

Week ending 20 September 2013

Angela Merkel's conservative party celebrated a decisive victory in yesterday's German elections after securing 41.5% of the vote, just shy of the level needed to gain a majority in the Bundestag. After Merkel's preferred coalition partner, the Free Democrats, failed to secure the minimum level of support needed to hold seats in parliament, a 'grand coalition' is being sought with the main opposition, the Social Democrats (SPD), who came second in the poll with 25.7% of the vote.

Away from the weekend's elections, the biggest story last week came from the US and the much anticipated Federal Open Market Committee (FOMC) meeting on 17-18 September. Federal Reserve Chairman Ben Bernanke surprised markets after announcing that the central bank would not begin tapering its quantitative easing (QE) programme next month. More specifically, Mr. Bernanke identified the "tightening of financial conditions observed in recent months" as a threat which could "slow the pace of improvement in the economy and labor market", hence prompting policymakers to hold-off on reducing the pace of asset purchases. The FOMC also lowered its growth forecasts for both this year and next, down from an expected range of between 2.3% and 2.6% to 2.0%- 2.3% in 2013, and down from 3.0%-3.5% to 2.9%- 3.1% in 2014. Forecasts for the rate of unemployment remained largely unchanged and the Chairman was keen to play down the importance of the 6.5% unemployment target as a trigger for policy action, explaining that the fall in unemployment masked the amount of "true unemployment" in the economy.

Other data releases in the US were largely positive last week, with the September Philly Fed survey, the NAHB (National Association of Homebuilders) index and existing home sales for August coming in on par with recent highs. The Philadelphia Federal Reserve Bank's Business Activity index rose by 13.1 points to 22.3 in September (readings above 0 indicate an increase in activity), to reach its highest level since March 2011. Existing home sales rose by 1.7% in August with 5.48 million units changing hands over the previous 12 months (the highest level since February 2007) whilst the homebuilders index remained unchanged at 58, its highest reading since November 2005.

In the UK, the government began the process of selling down its stake in part-nationalised lender Lloyds Banking Group on Monday, which, along with the Royal Bank of Scotland, received GBP 66 billion at the height of the financial crisis in 2008. With shares trading for 75 pence per share, the sale raised over GBP 3.2 billion and contributed to a small profit on behalf of the taxpayer. Data from the UK economy was mixed last week, with government borrowing coming in below consensus forecasts but retail sales falling unexpectedly in August. Public sector borrowing, as reported by the Office for National Statistics (ONS) was GBP 13.2 billion for the month, lower than the GBP 14.4 billion reported for the same period a year ago, helped by a marked drop in government spending (excluding investment) which fell by 2.2%. Retail sales, however, fell by 0.9% in August, against a rise of 0.4% expected.

Equity markets in mainland Europe returned 1.8% in local currency terms last week, helped by signs of improving conditions in the periphery. Second quarter GDP grew by 0.4% in Ireland, compared to -0.6% the previous quarter. Meanwhile in Greece, Finance Minister Yannis Stournaras said the economy was heading "slowly towards a recovery", citing estimates for second quarter GDP which reveal growth in output for the first time since the crisis began four years ago.

In Asia, India's new Governor of the Reserve Bank of India (RBI), Raghuram Rajan, raised interest rates by 0.25% to 7.50%, in an attempt to curb inflation, which hit a six month high of 6.1% in August.

Global (developed) equity markets returned 1.9% in US dollar terms last week, behind emerging markets which added the higher 2.7% (month to date 9.2%) in US dollar terms. Fixed income markets were largely positive, with global bonds and emerging bonds adding 1.3% and 3.2% in US dollar terms respectively. Global property securities added to the positive momentum, adding 3.2% over the week, whilst commodities alternatively fell back by 1.1%.

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

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 20 Sept 2013	Month to date	YTD 2013	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.3%	4.8%	21.2%	20.5%
United Kingdom	FTSE All Share TR	GBP	0.0%	3.0%	16.7%	21.2%
Continental Europe	MSCI Europe ex UK NR	EUR	1.8%	6.5%	16.4%	23.3%
Japan	Topix TR	JPY	2.8%	10.2%	43.4%*	67.4%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	3.4%	8.7%	7.0%	13.6%
Australia	S&P / ASX 200 TR	AUD	1.1%	3.3%	17.5%	25.6%
Global	MSCI World NR	USD	1.9%	6.2%	18.7%	21.6%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	5.4%	13.1%	0.1%	6.5%
Emerging Asia	MSCI EM Asia NR	USD	2.3%	7.8%	0.8%	6.8%
Emerging Latin America	MSCI EM Latin America NR	USD	3.2%	11.5%	-8.9%	-5.0%
BRICs	MSCI BRIC NR	USD	3.0%	11.4%	-2.4%	4.1%
Mena countries	Dow Jones MENA TR	USD	1.7%	2.9%	17.4%	16.4%
South Africa	FTSE JSE All Share TR	USD	1.8%	9.4%	-1.3%	6.9%
India	Nifty Fifty TR	USD	3.7%	16.8%	-10.1%	-10.1%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.7%	9.2%	-1.9%	3.6%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9%	0.2%	-3.0%	-3.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	2.0%	1.1%	-7.6%	-7.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.2%	0.3%	-3.0%	-2.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.0%	1.4%	4.2%	7.6%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.2%	-0.9%	-4.4%	-4.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	-0.6%	-0.7%	1.5%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.6%	0.3%	0.5%	3.6%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.4%	0.2%	1.0%	4.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	2.5%	3.7%	8.5%	18.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.4%	0.4%	1.8%	1.7%
Australian Government	JP Morgan Australia GBI TR	AUD	0.7%	-0.1%	-0.3%	-1.0%
Global Government Bonds	JP Morgan Global GBI	USD	1.1%	0.8%	-4.3%	-6.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.3%	1.1%	-2.6%	-2.9%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.1%	4.2%	12.9%	16.3%
Emerging Market Bonds	JP Morgan EMBI +	USD	3.2%	4.3%	-7.6%	-4.6%

* Estimate

Source: Bloomberg, September 2013

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 20 Sept 2013	Month to date	YTD 2013	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	2.4%	5.2%	4.4%	6.6%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.7%	4.2%	16.1%	25.2%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	3.4%	4.9%	4.1%	12.7%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	1.4%	1.6%	9.4%	16.2%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	4.0%	9.4%	8.6%	18.6%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	3.2%	7.0%	6.2%	12.3%
Currencies						
Euro		USD	1.7%	2.3%	2.5%	5.2%
UK Pound Sterling		USD	0.8%	3.2%	-1.5%	-1.0%
Japanese Yen		USD	0.0%	-1.2%	-12.7%	21.6%
Australian Dollar		USD	1.6%	5.5%	-9.6%	-9.5%
South African Rand		USD	0.4%	4.0%	-14.3%	-15.9%
Swiss Franc		USD	2.1%	2.1%	0.5%	3.2%
Chinese Yuan		USD	0.0%	0.0%	1.8%	2.7%
Commodities & Alternatives						
Commodities	RICI TR	USD	-1.1%	-1.9%	-2.7%	-5.9%
Agricultural Commodities	RICI Agriculture TR	USD	-1.0%	-1.3%	-8.6%	-13.8%
Oil	ICE Crude Oil CR	USD	-1.9%	-4.8%	-0.3%	-1.1%
Gold	Gold Spot	USD	0.0%	-5.0%	-20.8%	-25.2%
Hedge Funds	HFRX Global Hedge Fund	USD	0.3%*	1.2%*	4.6%*	5.4%*

* Estimate

Source: Bloomberg, September 2013

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