Market Weekly Review

Week ending **21 September 2014**

- Scotland votes to remain part of the UK
- US Federal Reserve calms markets
- ECB's targeted lending programme sees low up-take
- Chinese central bank adds liquidity to economy
- High yield bond funds see renewed outflows

UK equities added 0.5% in sterling terms last week with sterling flat against the US dollar, as markets calmed following a clear .No. vote in the Scottish referendum to leave the United Kingdom. Sterling had fallen by circa two percent against the greenback as markets priced in the potential for a .Yes. vote, but the currency recovered as results were announced on Friday morning. The referendum saw an unprecedented turnout of 84.6%, with 55% of the electorate voting against a split from the Union and 45% voting for independence. As the UK general election approaches in May 2015, the issue of devolving increased powers to Scotland and indeed other parts of the UK, including England, will remain a key element of the political agenda. For now, however, the potential for a sudden, severe shock to the UK market has subsided.

In the US, the Federal Reserve held its Open Market Committee (FOMC) meeting last week, with Chair Janet Yellen striking a more hawkish tone in her long-term outlook, whilst emphasising her dovish stance for the short-term. Ms Yellen aimed to address concerns that interest rates would rise sooner than expected, by reiterating that there would be ¡§considerable time¡¨ between the end of Quantitative Easing (QE) and a hike in rates, but she made clear that when rates do begin to rise, they will in all likelihood increase at a (slightly) faster pace than first forecast.

In Europe, equities added 1.0% in euro terms as investors become increasingly expectant of full-scale QE on the continent. Until now, the European Central Bank (ECB) has restricted its bond buying ambitions to non-government debt. Inflation remains low, however, and last week it was revealed that the central bank's programme of targeted lending had not seen as much take-up as had been expected. The ECB had offered banks up to EUR 400bn in cheap loans as part of the first round of its .Targeted Longer-Term Refinancing Operations. (TLTRO), but a mere EUR 82.6bn was borrowed by euro area banks. Germany still remains opposed to the type of QE seen in the US and UK, but pressure is mounting to boost growth as the risk of deflation looms. The Financial Times reports that at Sunday's meeting of G20 finance ministers and central bankers, the US and Canada urged EU leaders to "resolve internal political differences and do more to stimulate the economy".

In Asia, Japanese equities rose by 1.4% in yen terms as the Japanese currency depreciated by 2.2% against a strengthening US dollar, boosting export prospects. In China, local media reported that the People's Bank of China had pumped an additional CNY 500bn (USD 81bn) into five state-owned banks, as economic data releases continue to disappoint. Foreign direct investment in China has fallen to its lowest level year-on-year since the financial crisis, falling by 17% in July and by 14% in August. Brent Crude added 1.0% following the news of additional Chinese liquidity, but the commodity is still down month-to-date (-4.0%), leaving it at -11.9% year-to-date.

Last week also saw a third consecutive week of outflows from high yield bond funds in the US and Europe, according to Deutsche Bank. This bellwether asset class experienced outflows of USD 2.2bn from US funds, which accounted for 0.8% of their total assets under management (AUM). In Europe, high yield funds saw outflows of USD 207m, which accounted for circa 0.5% of their AUM. The pace of outflows had abated somewhat since July, but this recent activity may indicate a renewed momentum out of the asset class. US high yield bonds returned +0.2% and European high yield fell by 0.6% last week. On the other end of the credit spectrum, US Treasuries added 0.2%, but US Treasury Inflation-Protected Securities (TIPS) fell by 0.6% as inflation surprised on the downside. The US Consumer Price Index (CPI) printed 1.7% year-on-year (versus a consensus expectation of 1.9%), the first drop in inflation for over a year.

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

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 19 Sept. 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.3%	0.4%	9.9%	21.3%
United Kingdom	MSCI UK NR	GBP	0.5%	0.3%	4.2%	9.5%
Continental Europe	MSCI Europe ex UK NR	EUR	1.0%	2.4%	8.0%	14.7%
Japan	Topix TR	JPY	1.4%	4.2%	3.5%	13.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.5%	-3.4%	7.9%	10.4%
Australia	S&P/ASX 200 TR	AUD	-1.8%	-2.9%	5.1%	8.7%
Global	MSCI World NR	USD	0.6%	-0.4%	6.4%	14.9%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-1.9%	-1.8%	-8.3%	-9.8%
Emerging Asia	MSCI EM Asia NR	USD	-0.9%	-2.1%	9.3%	13.3%
Emerging Latin America	MSCI EM Latin America NR	USD	0.1%	-7.0%	8.8%	6.2%
BRICs	MSCI BRIC NR	USD	-1.3%	-3.6%	7.4%	9.2%
MENA countries	Dow Jones MENA TR	USD	0.8%	1.7%	27.7%	37.2%
South Africa	MSCI EM South Africa NR USD	USD	0.2%	-3.1%	9.1%	11.6%
India	Nifty Fifty TR	USD	0.3%	1.7%	32.3%	47.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.7%	-3.0%	7.3%	9.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.2%	-1.1%	3.2%	2.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.6%	-2.8%	4.1%	1.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3%	-1.5%	5.5%	6.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	-0.9%	4.8%	8.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.2%	-1.6%	6.6%	4.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	-1.0%	7.1%	7.0%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4%	-0.4%	9.6%	10.8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	0.1%	6.6%	7.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.6%	-2.4%	-1.6%	4.1%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	-0.3%	1.8%	2.0%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.3%	-1.6%	4.8%	4.5%
Global Government Bonds	JP Morgan Global GBI	USD	-0.3%	-2.8%	1.8%	0.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.2%	-2.3%	2.0%	1.7%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.5%	-1.7%	1.6%	4.5%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.5%	-2.0%	7.8%	8.5%

* Estimate

Source: Bloomberg

Asset Class/Region	Index	Currency	Currency returns			
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Property						
US Property Securities	MSCI US REIT NR	USD	-0.2%	-4.6%	14.9%	13.8%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-2.7%	-4.7%	10.5%	6.8%
Asia Property Securities	S&P Asia Property 40 NR	USD	-2.2%	-3.4%	0.8%	-1.0%
Global Property Securities	S&P Global Property USD TR	USD	-1.1%	-4.2%	9.0%	8.1%
Currencies						
Euro		USD	-1.0%	-2.3%	-6.7%	-5.2%
UK Pound Sterling		USD	0.1%	-1.9%	-1.6%	0.6%
Japanese Yen		USD	-2.2%	-5.2%	-4.2%	-10.8%
Australian Dollar		USD	-1.3%	-4.5%	0.1%	-4.2%
South African Rand		USD	-0.6%	-3.7%	-5.4%	-9.5%
Swiss Franc		USD	-0.8%	-2.4%	-5.1%	-3.8%
Chinese Yuan		USD	-0.2%	0.1%	-1.4%	-0.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	-1.3%	-5.3%	-6.0%	-7.3%
Agricultural Commodities	RICI Agriculture TR	USD	-2.8%	-6.4%	-11.2%	-14.2%
Oil	ICE Crude Oil CR	USD	1.0%	-4.0%	-11.9%	-9.7%
Gold	Gold Spot	USD	-1.1%	-5.6%	0.8%	-8.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.1%	0.0%	2.0%	4.4%

* Estimate

Source: Bloomberg

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