Weekly Review

Week ending 22nd February 2013

Equity markets in the US suffered their biggest one day decline since November on Wednesday, after minutes released for the Federal Reserve's January meeting suggested that officials may reduce the size of asset purchases and bring forward the target date for winding up the programme. Earlier in the week, President Barack Obama laid out his deficit reduction plan, ahead of the US spending sequester, which included cuts to spending and new revenue streams through closing tax loopholes. Whilst business activity disappointed, with the Philadelphia Fed Index of Business Activity falling to an eight month low of -12.5 versus 1.0 expected (a reading below zero indicates contraction in the region's manufacturing sector), whereas housing data surprised on the upside after existing home sales increased by 0.4% in January and the inventory of existing homes fell to its lowest level since December 1999. Manufacturing and services activity, as measured by the composite flash Purchasing Managers Index (PMI), also remained in expansionary territory at 55.2 for February (readings above 50 mark growth) despite US jobless claims for the week ending 16 February inching marginally higher to 362,000 versus 355,000 expected.

Whilst policymakers in the US appear to be considering stepping back from further easing, the minutes of the UK Central Bank's February 6-7 Monetary Policy Committee (MPC) meeting, showed that three of the nine members (including outgoing Bank of England Governor Sir Mervyn King) had called for an additional GBP 25 billion worth of asset purchases, despite forecasts showing that the rate of inflation is expected to remain above the Bank's 2% target for the next two years. The pound depreciated by 1.2% versus the US dollar following the release of the minutes, to end the week 2.3% lower. Sterling is continuing to depreciate versus the US dollar as at the time of writing, following Moody's downgrade of the UK's triple-A rating late on Friday night to Aa1. The latest employment figures for the UK were positive, with the total number of workers rising by 154,000 to 29.7 million between September and December 2012, marking the fastest rate of jobs growth since last summer. Real employment earnings fell over the same period, however.

In Europe, 54% of Italians cast their ballots on the first day of voting in presidential elections yesterday, with polls set to close at 2pm today. Earlier in the week, Mario Draghi and Mariano Rajoy gave separate speeches, with the ECB President saying he expects a gradual recovery in growth in the Eurozone later in the year, whilst Spain's Prime Minister tried to restore confidence in his People's Party by promising a "second wave" of reforms to stimulate the economy. Elsewhere, members of Greece's two biggest trade unions staged a 24 hour strike on the streets of Patras on Wednesday, in protest against new cuts to wages and pensions. The latest data from the single currency area provided mixed themes: the flash Eurozone PMI Composite fell 1.3 points to 47.3 in February, versus consensus forecasts for a rise to 49.0. German data was more upbeat, however, after the ZEW Economic Sentiment Survey rose by 16.7 points from its level at the end of January to 48.2, and the manufacturing PMI moved into expansionary territory for the first time in 12 months, at 50.1.

In Asia, the Bank of Japan's (BoJ) latest minutes provided few surprises, as the Bank committed to bringing an end to deflation and achieving price stability. In China, government housing data showed new home prices rising by an average of 0.8% in January compared to the previous year, and breaking the ten month trend of straight declines. Ratings agency Standard & Poor's also upgraded its guidance for the Chinese housing sector from negative to stable.

Global equities drifted off last week by 0.3% in US dollar terms. Whilst equity markets in Japan and Europe gained 2.2% and 0.7% in local currency terms over the period, US equities instead returned -0.2%. Emerging markets underperformed their developed counterparts, down by 1.2%, as the BRIC quartet fell by 2.6%. In fixed income markets, global government bonds and convertible bonds declined by 0.2% and 0.8% in US dollar terms respectively. Elsewhere, commodities suffered heavy losses last week, ending the period down by 2.6%, with oil futures and gold falling by 3.2% and 1.8% respectively.

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

Returns to 22 February 2013

Asset Class/Region	Index	Currency	Currency returns: Week ending 22 February 2013	Month to date	YTD 2013
Developed Market Equities					
United States	S&P 500 NR	**USD**	-0.2%	1.3%	6.5%
United Kingdom	FTSE All Share TR	**GBP**	0.3%	1.8%	8.3%
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.7%	0.2%	4.0%
Japan	Topix TR	**JPY**	2.2%	2.5%	12.1%*
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	-0.2%	1.3%	6.4%
Global	MSCI World NR	**USD**	-0.3%	-0.1%	5.0%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	-2.0%	-4.6%	-1.1%
Emerging Asia	MSCI EM Asia NR	**USD**	-0.7%	-0.2%	0.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-1.9%	-3.2%	0.4%
BRICs	MSCI BRIC NR	**USD**	-2.6%	-4.2%	-0.2%
South Africa	FTSE JSE All Share TR	**USD**	-2.4%	-1.1%	-3.4%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	-1.2%	-1.4%	0.0%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.2%	0.2%	-0.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.2%	-0.4%	-1.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.3%	0.3%	-0.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.1%	0.2%	1.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.7%	-0.2%	-2.1%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.6%	0.1%	-0.9%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.2%	0.1%	-0.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.5%	1.0%	-0.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-1.1%	-2.4%	0.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1%	0.3%	0.6%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.0%	-0.2%	-0.8%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.2%	-1.6%	-3.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.2%	-1.3%	-2.0%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	-0.8%	-0.8%	1.9%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.5%	-0.6%	-2.6%

Source: Bloomberg, February 2013

Returns to 22 February 2013

Asset Class/Region	Index	Currency	Currency returns: Week ending 22 February 2013	Currency returns: Month to date	Currency returns: YTD 2013
Property					
US Property Securities	MSCI US REIT NR	**USD**	0.3%	1.8%	5.5%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	0.3%	3.2%	4.3%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	0.3%	1.0%	0.0%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.5%	1.6%	6.2%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	0.4%	-1.8%	1.9%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	0.0%	-0.2%	3.0%
Currencies					
Euro		**USD**	-1.3%	-2.8%	0.0%
UK Pound Sterling		**USD**	-2.3%	-4.4%	-6.7%
Japanese Yen		**USD**	0.1%	-1.8%	-7.2%
Australian Dollar		**USD**	0.1%	-1.0%	-0.8%
South African Rand		**USD**	0.1%	0.9%	-4.5%
Swiss Franc		**USD**	-0.8%	-2.1%	-1.5%
Chinese Yuan		**USD**	-0.1%	-0.3%	-0.1%
Commodities & Alternatives					
Commodities	RICI TR	**USD**	-2.6%	-3.3%	0.5%
Agricultural Commodities	RICI Agriculture TR	**USD**	-1.1%	-3.7%	-0.9%
Oil	ICE Crude Oil CR	**USD**	-3.2%	-0.7%	3.2%
Gold	Gold Index	**USD**	-1.8%	-4.9%	-5.6%
Hedge Funds	HFRX Global Hedge Fund	**USD**	-0.3%*	0.2%*	2.2%*

* *Estimate*

Source: Bloomberg, February 2013

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