

Market Weekly Review

Week ending 22 June 2014

- Federal Reserve maintains dovish tone
- Gold rises sharply
- Emerging markets marked down over the week
- Kenyan government issues first international bond
- Cyprus returns to capital markets

Global equity markets rose by 1.2% in US dollar terms last week as Janet Yellen, Chair of the US Federal Reserve (Fed), struck a dovish tone at this month's Federal Open Market Committee (FOMC) meeting. The US equity market returned 1.4%, and UK stocks added 0.7% in sterling terms. There had been some nervousness amongst investors following recent comments by Bank of England Governor, Mark Carney, hinting at a sooner than expected hike in interest rates. Ms Yellen calmed markets, however, indicating no real change to monetary policy. The US will continue to scale back its asset purchase programme by USD 10 billion a month, as it has been doing since the start of the year, and there was no indication of an imminent rise in US interest rates. Japan also benefited from Ms Yellen's accommodative remarks, with the Topix index rising by 2.0% in yen terms last week, bringing its month-to-date return to +5.7%.

Last week also saw a spike in the price of gold, with the precious metal reaching a two month high of USD 1,320 per ounce on Thursday, and returning 3.0% over the week. The rally followed a range of announcements, including higher than expected inflation figures in the US; the Consumer Price Index (CPI) registered 2.1% versus consensus expectations of +2.0%. Treasury Inflation Protected Securities (TIPS) also rose, up 0.6%, as investors re-evaluated the risks of future inflation. Ms Yellen also cut the US growth forecast for 2014 to 2.15%-2.3% from an original prediction of 2.8%-3.0%, casting doubts on the strength of the US recovery in the short-term. Finally, the continued uncertainty surrounding events in Iraq also provided a fillip to the price of gold. Oil futures also rose, up 2.6% over the week, with the price of Brent crude hitting a nine month high of USD 115 per barrel on Thursday last week.

Emerging market (EM) equities fell at the start of the week and were not able to recover their losses post the FOMC meeting, despite the Fed's dovish stance. Stocks in emerging Europe fell by 0.3% and the MSCI EM Asia index declined by 0.6% (both in US dollar terms). Economic conditions particular to certain EM countries, for example South Africa and Argentina, and the ongoing uncertainty in Iraq also weighed on EM equities last week. The MSCI Emerging Markets index ended the week down 0.4% and the Dow Jones Middle East and North Africa (MENA) index fell by 2.5%.

Despite last week's returns in EM, there appears to be long-term appetite for EM securities, as Kenya broke the record for the largest sovereign debt market debut by an African country. The USD 2 billion Eurobond issue, with a USD 1.5 billion tranche of 10 year notes at a yield of circa 6.9% yield, and a USD 500 million tranche of 5 year notes at a yield of circa 5.9%, was four times oversubscribed according to the Financial Times, and shows a continued demand for sovereign EM debt.

Finally, last week saw the return of Cyprus to international capital markets, after the government issued EUR 750 million of 5-year notes at a yield of 4.85%. This comes only a year after the country's decision to 'bail-in' bank depositors as the euro-crisis took hold of the country. The issuance underscores how investors are regaining confidence in Europe's periphery and the euro area as a whole, with interest rates continuing to sit at record lows in countries such as Spain and Italy.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 20 June 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.4%	2.1%	6.9%	24.0%
United Kingdom	MSCI UK NR	GBP	0.7%	-0.1%	3.1%	13.6%
Continental Europe	MSCI Europe ex UK NR	EUR	0.2%	1.1%	8.3%	26.4%
Japan	Topix TR	JPY	2.0%	5.7%	-1.5%*	14.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.5%	0.4%	5.8%	16.1%
Australia	S&P/ASX 200 TR	AUD	0.3%	-1.3%	3.2%	17.7%
Global	MSCI World NR	USD	1.2%	2.0%	6.4%	24.3%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-0.3%	2.5%	0.8%	8.8%
Emerging Asia	MSCI EM Asia NR	USD	-0.6%	1.1%	5.1%	14.7%
Emerging Latin America	MSCI EM Latin America NR	USD	0.1%	4.9%	7.9%	9.8%
BRICs	MSCI BRIC NR	USD	-0.5%	4.0%	4.5%	15.4%
MENA countries	Dow Jones MENA TR	USD	-2.5%	-4.1%	14.6%	31.6%
South Africa	MSCI EM South Africa NR USD	USD	1.4%	2.2%	8.0%	13.1%
India	Nifty Fifty TR	USD	-1.2%	2.5%	23.1%	28.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.4%	1.9%	5.3%	13.5%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.1%	-0.8%	2.6%	1.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.6%	-0.5%	5.5%	3.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.0%	-0.6%	5.0%	7.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	0.8%	5.5%	11.7%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.1%	-1.2%	2.9%	1.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.0%	-0.8%	4.1%	6.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.0%	0.4%	6.3%	8.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.4%	4.6%	7.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.5%	0.5%	4.2%	19.1%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.1%	1.4%	2.9%
Australian Government	JP Morgan Australia GBI TR	AUD	0.7%	0.2%	4.2%	4.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.1%	-0.4%	3.9%	5.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.2%	-0.3%	3.8%	6.3%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.0%	0.0%	8.6%	9.9%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	1.6%	1.2%	17.2%	12.2%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.1%	1.6%	9.7%	4.9%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.6%	0.9%	2.2%	8.5%
Global Property Securities	S&P Global Property USD TR	USD	0.9%	1.1%	10.9%	12.5%
Currencies						
Euro		USD	0.4%	-0.2%	-1.0%	4.5%
UK Pound Sterling		USD	0.3%	1.6%	2.8%	11.8%
Japanese Yen		USD	0.0%	-0.3%	3.1%	-2.9%
Australian Dollar		USD	-0.1%	0.9%	5.3%	2.8%
South African Rand		USD	0.2%	-0.8%	-1.4%	-7.3%
Swiss Franc		USD	0.6%	0.1%	-0.2%	5.6%
Chinese Yuan		USD	-0.2%	0.4%	-2.7%	-1.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	1.3%	2.6%	7.1%	10.2%
Agricultural Commodities	RICI Agriculture TR	USD	0.7%	-0.3%	6.6%	2.9%
Oil	ICE Crude Oil CR	USD	2.6%	4.1%	3.0%	12.1%
Gold	Gold Spot	USD	3.0%	5.2%	9.1%	6.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.4%*	1.0%*	1.8%*	5.3%*

* Estimate

Source: Bloomberg

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