

Market Weekly Review

Week ending 23 March 2014

- Global equities rally by 0.8% last week
- Yellen's press conference prompts rise in Treasury yields
- Federal Reserve continues to taper as US unemployment falls
- EM currencies hold up well, despite Fed tapering
- More news of corporate defaults in China
- Russia completes annexation of Crimea

Global equities added 0.8% last week, led by continental Europe which rallied by 2.4% in euro terms. March has so far been a negative month for equity markets, with the global aggregate down by 1.2% to leave investors 0.1% behind for the year. Global emerging markets rose by 0.8% last week, after Latin America rebounded by 5.6%. Year to date emerging markets have fallen by 5.5% in US dollar terms and continue to trade at their highest discount to developed markets since 2004 on the basis of backward-looking price-to-earnings ratios. US treasuries declined by 0.5% last week, after the Federal Reserve hinted that the first rise in interest rates could be sooner than previously expected, while high yield continued to outperform (+0.3% last week; +2.6% year to date).

New Fed Chair, Janet Yellen, presided over her first Federal Open Market Committee (FOMC) meeting on Wednesday. The FOMC statement and Ms. Yellen's own post meeting press conference prompted 10 year treasury yields to rise by 10 basis points (0.1%) - their biggest one day rise since November - after investors perceived a more hawkish shift in the Fed's guidance. The "Summary of the Committee's Economic Projections" revealed a general rise in members' expectations for future interest rates, with the 2015 median rate expectation rising to 1.00% from 0.75% in December, while the 2016 median estimate increased to 2.25% from 1.75% previously.

The Fed continued to taper its monthly asset purchase programme by a further USD 10 billion, in line with market expectations. Pressed on the matter of how long after the end of quantitative easing investors could expect to see the first rise in interest rates, Ms. Yellen initially remarked six months before qualifying her statement by stating that any decision would be data dependent. Data from the real economy is starting to put upward pressure on US interest rates: despite the decline in the participation rate - the proportion of the working age population that make up the labour force - falling

unemployment is likely to begin exerting upward pressure on wages. Indeed annual wage growth is already back to 2.5% versus a 10 year average pre the financial crisis of 3.5%, according to Deutsche Bank. Headline inflation, however, remains subdued, with CPI growth falling to 1.1% year-on-year in February from 1.6% in January.

Emerging market currencies held up well last week despite the reduction in US stimulus, although it remains to be seen what will happen in the weeks ahead. The Mexican peso declined by 0.2% versus the US dollar last week, while the Brazilian real appreciated by 1.1%. Elsewhere, the Japanese yen depreciated by 0.9% to 102.2 yen per US dollar. Japanese trade data for February was weaker than expected, with exports growing by 9.8% year-on-year versus expectations for a rise of over 12%. Export growth has disappointed in four out of the past six months.

There was more news of corporate defaults from China last week. The collapse of property developer Zhejiang Xingrun Real Estate on Monday was swiftly followed by reports of the bankruptcy of Shanxi's largest steelmaker, Highsee Group, after the company failed to make a RMB 3 billion bank loan repayment on time. Local authorities have so far played down the significance of Zhejiang Xingrun's insolvency, blaming it on poor management rather than the tough environment for developers. House prices in China's second tier cities grew by 8.3% year-on-year to the end of February, down from 9.1% the previous month, while new home price growth in Beijing and Shenzhen fell to its slowest pace since October 2012, according to Bloomberg.

Russia has completed the annexation of Crimea and lawmakers are already working towards changing Crimea's currency and aligning the region's time zone with Moscow. Pro-Russian forces were reported to have stormed a Ukrainian military base in Crimea last week, leading to the death of a Ukrainian soldier. Interim Ukrainian Prime Minister, Arseniy Yatsenyuk, denounced the act as a war crime. The Ukrainian National Security Council decided to withdraw its military forces from Crimea in order to defuse the build up of military tensions in the region, although fears remain of further agitation in parts of eastern Ukraine. Elsewhere in Europe, euro area inflation registered 0.7% year-on-year in February, a four and a half year low and below the 0.8% expected by economists.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 21 March 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.4%	0.5%	1.3%	20.7%*
United Kingdom	MSCI UK NR	GBP	0.5%	-3.3%	-2.1%	5.6%
Continental Europe	MSCI Europe ex UK NR	EUR	2.4%	-1.9%	1.3%	17.2%
Japan	Topix TR	JPY	-1.6%*	-5.4%*	-12.0%*	11.9%*
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.2%	-2.0%	-2.7%	-1.4%
Australia	S&P/ASX 200 TR	AUD	0.2%	-0.8%	1.0%	12.2%*
Global	MSCI World NR	USD	0.8%	-1.2%	-0.1%	17.5%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	3.5%	-6.5%	-13.3%	-14.9%
Emerging Asia	MSCI EM Asia NR	USD	-0.7%	-2.8%	-4.4%	-1.2%
Emerging Latin America	MSCI EM Latin America NR	USD	5.6%	1.8%	-6.2%	-19.4%
BRICs	MSCI BRIC NR	USD	2.6%	-3.2%	-8.7%	-9.2%
MENA countries	Dow Jones MENA TR	USD	1.2%	1.9%	10.8%	33.2%
South Africa	MSCI EM South Africa NR USD	USD	-3.6%	-1.8%	-5.9%	-14.6%
India	Nifty Fifty TR	USD	0.4%	5.0%	4.7%	3.5%*
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.8%	-2.2%	-5.5%	-6.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.5%	-0.5%	1.4%	-1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.0%	-0.7%	1.9%	-7.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	-0.3%	2.5%	1.0%*
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	-0.1%	2.6%	7.2%*
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.7%	-0.1%	2.3%	-2.7%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.6%	0.0%	2.5%	1.7%*
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.2%	0.3%	3.2%	5.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.2%	0.1%	2.0%	3.9%*
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.8%	0.2%	2.8%	19.6%*
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2%	0.0%	1.1%	0.8%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.6%	-0.5%	0.9%	1.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.8%	-0.3%	2.5%	0.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.8%	-0.3%	2.2%	2.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.4%	-0.5%	3.2%	14.4%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.2%	-0.6%	1.5%	-3.8%*

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	-0.3%	-0.7%	8.5%	1.9%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	0.0%	-1.4%	2.3%	-0.6%*
Asia Property Securities	S&P Asia Property 40 NR	USD	-1.6%	-3.8%	-10.6%	-9.9%
Global Property Securities	S&P Global Property USD TR	USD	-0.6%	-1.6%	1.2%	-1.5%
Currencies						
Euro		USD	-0.9%	-0.1%	0.4%	7.6%
UK Pound Sterling		USD	-1.0%	-1.5%	-0.4%	8.5%
Japanese Yen		USD	-0.9%	-0.5%	2.9%	-7.9%
Australian Dollar		USD	0.6%	1.8%	1.8%	-12.8%
South African Rand		USD	-2.0%	-1.2%	-3.6%	-15.2%
Swiss Franc		USD	-1.2%	-0.3%	1.2%	7.6%
Chinese Yuan		USD	-1.2%	-1.3%	-2.7%	-0.2%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.8%	-0.2%	3.9%	-0.9%*
Agricultural Commodities	RICI Agriculture TR	USD	-0.6%	4.0%	10.6%	-0.2%*
Oil	ICE Crude Oil CR	USD	-1.6%	-2.7%	-5.0%	-3.2%*
Gold	Gold Spot	USD	-3.5%	0.6%	10.7%	-16.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.2%*	-0.4%*	0.9%*	4.4%*

* Estimate

Source: Bloomberg

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