# Market Weekly Review

Week ending **23 November 2014**

- ECB increasingly dovish about additional easing
- China cuts interest rates
- Japan's Shinzo Abe calls snap election
- S&P 500 continues to hit record highs
- OPEC to meet on Thursday

Global equities gained 1.2% last week as central bank policy makers once again boosted markets with dovish speeches and actions. The week began, however, with worries of a sooner than expected rate hike in the US, as minutes from the latest Federal Reserve meeting proved less dovish than expected and inflation numbers surprised on the upside. In the US, core inflation rose 0.2% month-on-month, versus expectations of a 0.1% increase, and existing home sales rose by 1.5% month-on-month (versus predictions of a 0.4% decline).

In contrast, economic data out of Europe disappointed. November's initial estimate for the composite Purchasing Managers. Index (PMI) printed 51.4, its lowest level since July 2013, and down from 52.1 in October. The underlying figures revealed that manufacturing PMIs fell 0.2 points to 50.4, while services PMIs fell from 52.3 to 51.3. As deflation fears in Europe are becoming increasingly entrenched, Mario Draghi, President of the European Central Bank (ECB), stated on Friday that the bank must "raise inflation and inflation expectations as fast as possible". The dovish speech reiterated that in terms of monetary policy, all options are still on the table. European stocks rallied following the speech, resulting in European equities adding 3.3% in euro terms. The euro depreciated by 1.0% against the US dollar.

The People's Bank of China also moved to address concerns about a domestic slowdown, by cutting its benchmark interest rate for the first time in two years at the end of last week. The unexpected move took the interest rate down by 0.25% to 2.75%. The bank also cut its lending rate by 0.40% to 5.60%. Deutsche Bank expects this to be the first in a series of interest rate cuts, as the Chinese government attempts to boost its domestic economy. According to HSBC, Chinese manufacturing PMIs have hit a six month low, reading 50.0 versus consensus forecasts of 50.2.

In the US, the S&P 500 recovered from its midweek jitters, and closed at a record high for the 47th time this year. Materials and industrials stocks performed particularly well, following the news from the Chinese central bank. The continued low price of oil is also being interpreted as good for consumers in the run up to the important holiday shopping season. Brent crude crept up 1.1% last week and is trading above USD 80 a barrel once again, but is still down significantly from its June peak of USD 115 a barrel. OPEC will meet in Vienna on Thursday to decide whether to cut production in the face of declining oil prices. Against this backdrop, the US dollar continued to strengthen against a basket of major currencies, appreciating 0.9% over the week. US Treasuries added 0.1% last week, while UK Gilts returned 0.7%. High yield bonds fell by 0.4% in the US and European high yield bonds lost 0.5% in euro terms.

In Japan, Prime Minister Shinzo Abe called a widely anticipated snap election last week. With the opposition parties weak, Mr Abe is seeking a new four-year term to push forward with his far-reaching economic reforms, often termed 'Abenomics'. He is also seeking a mandate to postpone a second planned consumer tax hike. The initial tax rise in April has caused Japan to fall back into recession this quarter, despite Abe's bold stimulus measures. Japanese equities were flat in yen terms last week.

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

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 21 Nov. 2014 | Month to date | YTD 2014 | 12 months |
| **Developed Market Equities** | | | | | |
| United States | USD | 1.2% | 2.4% | 13.1% | 16.6% |
| United Kingdom | GBP | 1.5% | 3.4% | 3.3% | 4.5% |
| Continental Europe | EUR | 3.3% | 2.8% | 7.5% | 9.6% |
| Japan | JPY | 0.0% | 5.0% | 9.6% | 14.6% |
| Asia Pacific (ex Japan) | USD | -1.5% | -2.4% | 3.9% | 3.9% |
| Australia | AUD | -2.7% | -3.4% | 3.3% | 4.8% |
| Global | USD | 1.2% | 1.9% | 6.5% | 9.6% |
| **Emerging Market Equities** | | | | | |
| Emerging Europe | USD | 4.2% | -1.2% | -14.4% | -16.9% |
| Emerging Asia | USD | -0.7% | -2.0% | 4.6% | 5.6% |
| Emerging Latin America | USD | 7.3% | -0.7% | 0.5% | -1.7% |
| BRICs | USD | 2.0% | -1.5% | 2.4% | 1.0% |
| MENA countries | USD | -1.3% | -2.8% | 14.7% | 18.4% |
| South Africa | USD | 2.6% | 4.1% | 13.5% | 15.3% |
| India | USD | 1.1% | 1.5% | 36.5% | 46.1% |
| Global emerging markets | USD | 1.4% | -1.1% | 2.5% | 2.4% |
| **Bonds** | | | | | |
| US Treasuries | USD | 0.1% | 0.3% | 5.1% | 4.3% |
| US Treasuries (inflation protected) | USD | -0.1% | 0.0% | 5.1% | 3.6% |
| US Corporate (investment grade) | USD | 0.0% | -0.2% | 6.5% | 6.9% |
| US High Yield | USD | -0.4% | -0.8% | 3.9% | 5.0% |
| UK Gilts | GBP | 0.7% | 1.7% | 10.9% | 10.0% |
| UK Corporate (investment grade) | GBP | 0.4% | 1.3% | 10.0% | 9.4% |
| Euro Government Bonds | EUR | 0.3% | 0.6% | 11.1% | 10.7% |
| Euro Corporate (investment grade) | EUR | -0.1% | 0.4% | 7.6% | 7.4% |
| Euro High Yield | EUR | -0.5% | -0.3% | -5.1% | -1.8% |
| Japanese Government | JPY | 0.2% | 0.4% | 3.2% | 2.8% |
| Australian Government | AUD | 0.5% | 0.3% | 7.8% | 8.8% |
| Global Government Bonds | USD | -0.1% | -1.0% | 0.5% | -0.3% |
| Global Bonds | USD | -0.1% | -0.7% | 1.0% | 0.9% |
| Global Convertible Bonds | USD | 0.2% | 0.1% | -0.1% | 1.5% |
| Emerging Market Bonds | USD | 0.6% | -0.8% | 8.5% | 9.1% |

* Estimate

*Source: Bloomberg*

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 21 Nov. 2014 | Month to date | YTD 2014 | 12 months |
| **Property** | | | | | |
| US Property Securities | USD | 1.0% | 0.2% | 24.5% | 22.8% |
| Australian Property Securities | AUD | -2.5% | -2.0% | 14.8% | 12.2% |
| Asia Property Securities | USD | -1.8% | -1.4% | 1.0% | 0.1% |
| Global Property Securities | USD | 0.1% | -0.2% | 12.6% | 11.7% |
| **Currencies** | | | | | |
| Euro | USD | -1.0% | -1.0% | -9.8% | -8.1% |
| UK Pound Sterling | USD | -0.1% | -2.1% | -5.4% | -3.3% |
| Japanese Yen | USD | -1.2% | -5.6% | -11.6% | -15.2% |
| Australian Dollar | USD | -1.0% | -1.5% | -2.8% | -6.1% |
| South African Rand | USD | 1.2% | 0.8% | -4.2% | -7.5% |
| Swiss Franc | USD | -1.1% | -0.7% | -7.9% | -5.8% |
| Chinese Yuan | USD | 0.1% | -0.1% | -1.1% | -0.5% |
| **Commodities & Alternatives** | | | | | |
| Commodities | USD | 1.0% | -1.3% | -10.1% | -8.8% |
| Agricultural Commodities | USD | -0.1% | -0.8% | -6.7% | -7.2% |
| Oil | USD | 1.1% | -8.9% | -29.6% | -26.8% |
| Gold | USD | 1.1% | 2.4% | -0.3% | -3.3% |
| Hedge funds | USD | 0.0% | -0.3% | -0.4% | 0.7% |

* Estimate

*Source: Bloomberg*

For more information, please contact your adviser or alternatively contact:

**Financial Partners Ltd.**
泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk
A Member of Wealthnet

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