

# Market Weekly Review

Week ending **26 October 2014**

- Global equity markets rebound
- US inflation stays muted
- German manufacturing data surprises on upside
- 25 banks fail European banking test
- Dilma Rousseff wins Brazilian election

Global equity markets added 3.4% last week as they recovered from the preceding week's sell-off. The S&P 500 saw its largest one day gain year-to-date on Tuesday, rising by 2.0% to 1,941 points. The US equity bourse ended the week at 1,965 having added 4.1%. European equities rose by 3.0% in euro terms despite continued worries surrounding low inflation in the euro area. The UK added 1.3% in sterling terms. The Vix index of implied volatility continued to fall, following its recent spike to 30.9 to end the week at 16.1.

In the US, equity markets were boosted by heightened expectations of lower for longer interest rates, as consumer price inflation (CPI) remains muted, increasing by 0.1% month-on-month and staying flat at 1.7% year-on-year. Earnings reports have also been robust, with circa 80% of companies exceeding expectations so far. Caterpillar, the construction equipment firm often seen as a bellwether for economic growth, posted strong results with increasing demand from American manufacturers, in particular, driving revenue growth.

Sentiment was also aided by reports that the European Central Bank (ECB) may engage in corporate bond buying in the secondary market next year, and dovish comments from the Bank of England (BoE). Minutes from the latest BoE Monetary Policy Committee meeting showed members voting seven-two in favour of not raising rates from their historic 0.5% low. There were also clear reservations about raising interest rates too soon, in the face of slowing global growth.

In Germany, the manufacturing Purchasing Managers' Index (PMI) printed 51.8 versus forecasts of 49.5, somewhat assuaging

fears of a German slowdown, and overshadowing continued disappointing data out of France. The French manufacturing PMI read 47.3 versus expectations of 48.5. The PMI number for the euro area as a whole read 50.7 versus an expectation of 49.9, which would have indicated a slight contraction in manufacturing activity across the currency bloc.

US high yield bonds added 1.0% last week, as weekly flows into US high yield bond funds increased to their highest level since August, according to Deutsche Bank. European high yield bond funds continued to see outflows, however, although the asset class returned a modest 0.2% in euro terms over the week. Global convertible bonds added 2.2%. US Treasuries fell by 0.4% and inflation protected US Treasuries (TIPS) fell by 0.8%, as markets warmed to risk assets. Oil prices rose by 1.3% over the week, but the commodity is now down by almost a quarter year-to-date (-23.2%).

Sunday saw the release of the Asset Quality Review (AQR) and the results of the ECB's "stress test" of euro area banks. Of the 130 euro area banks tested, 25 failed to meet the capital requirements set out by the central bank, with a total shortfall of EUR 24.6 billion being reported. This number is based on 2013 data, however, and taking into account the large amount of capital raised by these 25 lenders in 2014, only 13 banks fail to meet the ECB's criteria today. Italian banks fared least well, with nine Italian lenders failing to meet the required ratios.

In Brazil, the incumbent candidate Dilma Rousseff won the national election with 51.6% of the vote compared to 48.4% for Aécio Neves, in what was the closest election result in decades. Mr Neves had mounted a late surge, and hopes of a win for the business friendly opposition candidate helped the Brazilian real strengthen 1.8% against the US dollar last Friday. Focus will now be on Ms Rousseff's economic plan and in particular her new finance minister, who is expected to be named within days. In Ukraine, election polls from Sunday's parliamentary elections indicate a strong show of support for the pro-Western candidates.

Asset Class/Region	Index	Currency	Currency returns			
			Week ending 24 Oct. 2014	Month to date	YTD 2014	12 months
<b>Developed Market Equities</b>						
United States	S&P 500 NR	USD	4.1%	-0.3%	7.5%	13.4%
United Kingdom	MSCI UK NR	GBP	1.3%	-3.4%	-2.5%	-1.8%
Continental Europe	MSCI Europe ex UK NR	EUR	3.0%	-4.7%	1.6%	3.5%
Japan	Topix TR	JPY	5.5%	-6.3%	-2.8%	6.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	2.2%	0.0%	3.6%	1.3%
Australia	S&P/ASX 200 TR	AUD	2.7%	2.3%	4.7%	4.2%
Global	MSCI World NR	USD	3.4%	-1.7%	2.1%	6.1%
<b>Emerging Market Equities</b>						
Emerging Europe	MSCI EM Europe NR	USD	0.1%	-3.4%	-15.1%	-20.4%
Emerging Asia	MSCI EM Asia NR	USD	2.0%	-1.6%	3.5%	2.3%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.6%	-3.9%	-2.6%	-9.2%
BRICs	MSCI BRIC NR	USD	-1.0%	-1.4%	-0.2%	-3.1%
MENA countries	Dow Jones MENA TR	USD	3.8%	-5.2%	18.9%	25.0%
South Africa	MSCI EM South Africa NR USD	USD	2.3%	2.1%	4.3%	1.5%
India	Nifty Fifty TR	USD	3.1%	1.9%	29.9%	30.1%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.8%	-2.0%	0.4%	-2.5%
<b>Bonds</b>						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.4%	1.4%	5.2%	3.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.8%	1.1%	5.3%	2.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.4%	1.4%	7.0%	6.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.0%	1.1%	4.6%	5.7%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.3%	1.6%	9.3%	6.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.1%	0.9%	8.6%	6.8%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.1%	-0.3%	9.8%	9.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.1%	6.9%	6.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.2%	0.2%	-3.9%	-0.9%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.3%	2.6%	2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.2%	1.3%	7.4%	7.5%
Global Government Bonds	JP Morgan Global GBI	USD	-0.7%	1.0%	2.6%	0.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.6%	0.9%	2.5%	1.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	2.2%	-0.5%	-1.1%	-0.1%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.1%	1.1%	8.4%	6.2%

\* Estimate

Source: Bloomberg

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<b>Property</b>						
US Property Securities	MSCI US REIT NR	USD	3.2%	7.2%	21.2%	14.9%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	2.5%	3.2%	13.2%	6.6%
Asia Property Securities	S&P Asia Property 40 NR	USD	2.2%	-0.2%	-2.1%	-4.1%
Global Property Securities	S&P Global Property USD TR	USD	2.7%	2.8%	9.7%	5.5%
<b>Currencies</b>						
Euro		USD	-0.7%	0.3%	-7.8%	-6.7%
UK Pound Sterling		USD	0.0%	-0.8%	-2.8%	0.3%
Japanese Yen		USD	-1.1%	1.1%	-3.2%	-9.8%
Australian Dollar		USD	0.5%	0.5%	-1.5%	-7.1%
South African Rand		USD	1.3%	3.2%	-4.1%	-8.1%
Swiss Franc		USD	-0.6%	0.3%	-6.2%	-4.7%
Chinese Yuan		USD	0.1%	0.3%	-1.0%	-0.4%
<b>Commodities &amp; Alternatives</b>						
Commodities	RICI TR	USD	-0.3%	-2.5%	-9.6%	-9.2%
Agricultural Commodities	RICI Agriculture TR	USD	0.7%	4.6%	-8.2%	-9.0%
Oil	ICE Crude Oil CR	USD	1.3%	-11.2%	-23.2%	-21.7%
Gold	Gold Spot	USD	-0.6%	1.9%	2.1%	-7.0%
Hedge funds	HFRX Global Hedge Fund	USD	0.8%	-1.9%	-0.7%	0.4%

\* 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](mailto:client.services@f-p.hk)  
[www.f-p.hk](http://www.f-p.hk)  
A Member of Wealthnet

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