

Market Weekly Review

Week ending 27 July 2014

- Low volatility persists in equity markets
- Russia raises interest rates as the West considers sanctions
- US earnings continue to surprise on the upside
- Mixed economic data out of Europe
- Chinese manufacturing PMI rises

Global stocks ended the week up by 0.2%, with major equity bourses failing to establish a trend amidst continued uncertainty emanating from the Middle East and Ukraine. The Chicago Board Options Exchange (CBOE) VIX index, which measures implied volatility in the US stock market, fell back to circa 12 following a small spike to 15 the previous week; the index, also known as the “Wall Street Fear Gauge”, continues to sit at historical lows. Equities in emerging Europe were flat over the week, but are now down by 2.2% month-to-date. Continental European equities ended the week up by 0.6% in euro terms, while in the UK stocks added 0.6% in sterling terms.

In Russia, the central bank hiked its main interest rate by half a percent to 8.0% on Friday (interest rates began the year at 5.0%) in an attempt to stop the devaluation of the ruble and to curb inflation. The central bank pushed up rates in anticipation of new sanctions that are expected to be imposed this week by the European Union and the US. Reports suggest that the list of Russian individuals subject to sanctions will be expanded, and it looks increasingly likely that “phase three” of sanctions will also come into force this week. This is expected to include broader sanctions on Russia’s economy, including significant restrictions on investment in Russian banks by EU nationals.

In the US, the S&P 500 index was flat last week, despite another positive week for company earnings. Deutsche Bank notes that of the 228 S&P 500 companies that have released results so far, 78% have beaten earnings per share (EPS) expectations and 66% have outperformed revenue forecasts. This is in contrast to the 127 companies in Europe that have now released results, with 55% beating EPS consensus figures and 52% exceeding revenue expectations.

US Treasuries added 0.1% last week to bring their year-to-date returns to 3.5%, while in the UK Gilts rose 0.2% in sterling terms (+4.8% year-to-date). High yield bonds in the US added 0.2%; however, a report released by Lipper showed retail investors continuing to withdraw money from the asset class. According to the data, the week ending 27 July saw outflows of USD 2.4 billion from high yield bond funds, the largest outflow in 13 months following withdrawals of USD 1.7 billion the previous week. Federal Reserve Chair, Janet Yellen, is on record as saying that valuations in the asset class “appear stretched”. European high yield bonds also declined last week, losing 0.4% in euro terms.

On the data front, US inflation was unchanged in June at 2.1% year-on-year, while core inflation, excluding volatile items such as Food and Energy, eased slightly from 2.0% to 1.9% year-on-year. In the euro area, data from purchasing managers (PMI) showed a sharp rise in activity in the services sector index, from 52.8 to 54.4, while the manufacturing index improved modestly from 51.8 to 51.9. Germany saw some improvement following weaker than expected PMI figures in June, but France continues to struggle with a third consecutive month where the composite PMI is below 50, indicating a contraction in economic activity.

In China, the HSBC Markit Manufacturing Purchasing Managers’ index rose to 52.0 in June from 50.7 previously, following the “mini-stimulus” introduced by China’s authorities in April. Elsewhere in Asia, the Topix index gained 1.4% in yen terms, while Australian equities added 0.9% in Australian dollar terms. The Australian dollar was up by 0.1% against the greenback, bucking the trend of a strengthening US dollar against most other major currencies. The yen depreciated by 0.5% against the US dollar over the week, but has gained 3.4% year-to-date. Over 12 months the yen is down by 3.9% against the US dollar.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 25 July 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.0%	1.0%	7.9%	19.1%
United Kingdom	MSCI UK NR	GBP	0.6%	0.9%	2.8%	6.2%
Continental Europe	MSCI Europe ex UK NR	EUR	0.6%	-0.8%	5.5%	16.7%
Japan	Topix TR	JPY	1.4%	1.5%	-0.5%	15.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.7%	3.2%	10.5%	18.8%
Australia	S&P/ASX 200 TR	AUD	0.9%	3.5%	6.6%	15.5%
Global	MSCI World NR	USD	0.2%	0.3%	6.5%	18.2%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	0.0%	-2.2%	-1.9%	3.4%
Emerging Asia	MSCI EM Asia NR	USD	1.8%	3.1%	10.2%	18.7%
Emerging Latin America	MSCI EM Latin America NR	USD	1.3%	5.5%	13.1%	16.2%
BRICs	MSCI BRIC NR	USD	2.3%	4.5%	9.4%	19.2%
MENA countries	Dow Jones MENA TR	USD	1.5%	7.5%	19.3%	29.4%
South Africa	MSCI EM South Africa NR USD	USD	2.0%	3.0%	12.8%	22.5%
India	Nifty Fifty TR	USD	2.1%	2.6%	28.3%	39.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.5%	3.1%	9.5%	16.7%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.1%	0.2%	3.5%	2.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.4%	0.6%	7.0%	4.7%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2%	0.4%	6.1%	7.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	-0.4%	5.0%	9.1%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.2%	1.2%	4.8%	3.0%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.1%	0.7%	5.4%	5.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.8%	7.9%	9.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	0.5%	5.3%	6.8%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.1%	-1.5%	3.0%	12.9%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.2%	1.8%	3.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.4%	0.6%	5.5%	5.1%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	-0.3%	4.8%	5.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.2%	-0.4%	4.4%	5.6%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.1%	-1.2%	4.1%	10.8%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.4%	0.9%	10.4%	11.1%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	-0.6%	1.6%	18.8%	12.9%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.0%	4.2%	13.1%	9.1%
Asia Property Securities	S&P Asia Property 40 NR	USD	1.3%	2.7%	4.7%	10.3%
Global Property Securities	S&P Global Property USD TR	USD	0.1%	1.7%	13.1%	13.8%
Currencies						
Euro		USD	-0.7%	-1.9%	-2.3%	1.0%
UK Pound Sterling		USD	-0.6%	-0.8%	2.5%	11.6%
Japanese Yen		USD	0.0%	-1.0%	3.2%	-3.9%
Australian Dollar		USD	0.1%	-0.4%	5.4%	4.6%
South African Rand		USD	1.3%	1.2%	-0.2%	-6.0%
Swiss Franc		USD	-0.7%	-2.0%	-1.3%	2.4%
Chinese Yuan		USD	0.4%	0.2%	-2.2%	-1.0%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.1%	-3.6%	1.8%	1.3%
Agricultural Commodities	RICI Agriculture TR	USD	-0.5%	-6.3%	-3.0%	-5.6%
Oil	ICE Crude Oil CR	USD	-0.2%	-5.4%	-3.8%	0.1%
Gold	Gold Spot	USD	-0.3%	-1.5%	8.4%	-1.4%
Hedge funds	HFRX Global Hedge Fund	USD	0.3%	-0.1%	1.7%	4.2%

* Estimate

Source: Bloomberg

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