FP FINANCIAL PARTNERS

momentum

Market Weekly Review

Week ending 29 June 2014

- Geopolitical risk continues to weigh on sentiment
- US economy contracts in first quarter
- German retail sales decline unexpectedly
- Bank of Japan Governor ignores calls for further stimulus
- Jean-Claude Juncker elected President of the European Commission

Equity markets declined last week in most developed economies, with the exception of developed Asia (+1.0% in US dollar terms) and Australia, which saw its equity index add 0.7% in Australian dollar terms. Emerging equities fared better, with emerging Asian stocks rising by 0.9%, contributing to the MSCI Emerging Markets index.s modest gain of 0.3% for the week (both in US dollar terms).

Geopolitical risk in Iraq and Syria continues to weigh on sentiment generally, but the initial fears have abated to an extent as oil infrastructure in southern Iraq has thus far remained unaffected by the rise of the militant Islamic State of Iraq and Greater Syria (ISIS). Oil prices fell 1.2%, following a spike in prices over the last few weeks.

In the US, the release of revised GDP figures showed the world.s largest economy contracted by 2.9% (on an annualised basis) in the first quarter of 2014. This stands in stark contrast to earlier estimates of 1.0% growth. The numbers were in part explained by the severe winter weather seen in the US, and new data being used to calculate the metric, following recent healthcare reforms. Despite these explanations, US equities ended the week down 0.1%.

Other US economic data suggests a more positive outlook, with the Thomson Reuters/University of Michigan.s consumer confidence survey rising from 81.9 to 82.5. New home sales also increased in May, up by 18.6% compared to April and versus modest expectations for an increase of 1.4%. Today the S&P 500 looks set for its sixth quarterly gain, which would be the longest rally the index has seen since 1998.

European bourses were also down following the shock US GDP figures, and weak data coming out of its leading economy, Germany. German retail sales unexpectedly fell 0.6% month-on-month, versus expectations of a 0.8% gain. Last month.s retail figures were also revised down sharply to -1.5% from an initial estimate of -0.9%. European stocks were down 1.8% over the week, in euro terms.

In the UK, Mark Carney, Governor of the Bank of England, seemed to backtrack from his earlier hawkish statement about interest rates, highlighting soft earnings figures in the UK and commenting that there was still plenty of spare capacity in the British economy. Sterling weakened following Mr Carney.s testimony in front of Parliament, but closed the week up 0.1% against the US dollar. UK gilts ended the week +0.9%, in sterling terms.

In Japan, the central bank Governor, Haruhiko Kuroda, announced last week that he expects inflation to fall temporarily ¡§to around 1%¡¨ from the current 1.5%. He also emphasised that he did not consider an increase in the Bank of Japan.s (BoJ) stimulus programme to be necessary, emphasising instead the BoJ.s mandate to ¡§ensure price stability¡¨. Japan.s Topix index fell 1.2% in yen terms last week and the yen strengthened by 0.7% against the dollar. In an opinion piece for the Financial Times this weekend, Japanese Prime Minister Shinzo Abe re-emphasised his commitment to the .third arrow. of his .Abenomics. reform package, amid fears that the Japanese economy is at risk of stalling. Mr Abe wrote that ¡§structural reform shifted up a gear this month¡¨, and highlighted the reduction in corporate taxes and his efforts to strengthen corporate governance going forward.

In politics, the ex-Prime Minister of Luxembourg, Jean-Claude Juncker was elected as President of the European Commission, the most powerful position within the European Union (EU). The appointment came in spite of strong opposition from the UK Prime Minister, David Cameron. Mr Cameron argued that the federalist Mr Juncker would drive the UK closer to an EU exit, amidst strong opposition to the European project by the British public and increasing numbers of conservative Members of Parliament. In contrast, the director of Britain.s biggest business group, the Confederation of British Industry (CBI), warned over the weekend that Britain.s success depends on it remaining a member of the EU. Today, Germany.s finance minister, Wolfgang Schaube, said that a British exit from the EU would be ¡°unimaginable¡±, and that Germany would do whatever it could to keep the UK from leaving.

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

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 27 June 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-0.1%	11.2%	6.8%	23.9%
United Kingdom	MSCI UK NR	GBP	-1.0%	5.0%	2.0%	12.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.8%	7.6%	6.3%	24.1%
Japan	Topix TR	JPY	-1.2%	9.0%	-2.7%*	12.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.0%	13.6%	6.8%	17.2%
Australia	S&P/ASX 200 TR	AUD	0.7%	8.5%	4.0%	18.5%
Global	MSCI World NR	USD	-0.3%	10.5%	6.0%	23.9%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-0.1%	7.0%	0.7%	8.7%
Emerging Asia	MSCI EM Asia NR	USD	0.9%	13.7%	6.0%	15.7%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.7%	17.1%	7.2%	9.0%
BRICs	MSCI BRIC NR	USD	0.0%	14.2%	4.6%	15.4%
MENA countries	Dow Jones MENA TR	USD	-2.0%	7.3%	12.3%	28.9%
South Africa	MSCI EM South Africa NR USD	USD	0.0%	25.0%	8.0%	13.1%
India	Nifty Fifty TR	USD	0.2%	29.3%	23.3%	29.0%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.3%	13.8%	5.7%	13.8%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.5%	1.6%	3.1%	2.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.8%	4.2%	6.3%	4.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.6%	3.8%	5.6%	7.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.0%	4.6%	5.4%	11.7%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.9%	1.8%	3.8%	2.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.8%	2.8%	4.9%	7.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.6%	4.8%	7.0%	9.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	3.5%	4.8%	7.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.2%	4.9%	4.4%	19.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.6%	1.7%	3.2%
Australian Government	JP Morgan Australia GBI TR	AUD	0.7%	4.1%	5.0%	5.3%
Global Government Bonds	JP Morgan Global GBI	USD	0.9%	2.9%	4.9%	6.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.7%	3.2%	4.6%	7.1%
Emerging Market Bonds	JP Morgan EMBI+	USD	1.0%	10.4%	9.7%	11.0%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	0.0%	12.4%	17.2%	12.2%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	0.4%	9.7%	10.1%	5.3%
Asia Property Securities	S&P Asia Property 40 NR	USD	-0.4%	11.1%	1.8%	8.0%
Global Property Securities	S&P Global Property USD TR	USD	0.3%	12.6%	11.2%	12.9%
Currencies						
Euro		USD	0.4%	0.4%	-0.7%	4.9%
UK Pound Sterling		USD	0.1%	4.4%	2.9%	12.0%
Japanese Yen		USD	0.7%	0.7%	3.8%	-2.2%
Australian Dollar		USD	0.5%	5.3%	5.8%	3.2%
South African Rand		USD	0.6%	4.2%	-0.8%	-6.7%
Swiss Franc		USD	0.4%	1.1%	0.2%	6.1%
Chinese Yuan		USD	0.1%	-2.5%	-2.6%	-1.3%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.5%	6.5%	6.5%	9.6%
Agricultural Commodities	RICI Agriculture TR	USD	-0.4%	4.9%	6.1%	2.5%
Oil	ICE Crude Oil CR	USD	-1.2%	7.1%	1.8%	10.8%
Gold	Gold Spot	USD	0.1%	4.6%	9.2%	6.6%
Hedge funds	HFRX Global Hedge Fund	USD	-0.2%*	2.2%*	1.6%*	5.1%*

* Estimate

Source: Bloomberg

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