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Newsflash

A new month and the 103rd issue of Viewpoint from **Financial Partners**.

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Market Commentary

Markets never trend relentlessly in the same direction, and April proved to be an overdue reminder of this. At times when a trend might seem clear, there are inevitably surprises, and ultimately valuations become the key driver. The sell-off in the past three weeks in government bonds, arguably one of the biggest asset bubbles of all time, illustrates this well. Going forward much will depend on whether the growth pause in the US is just that, or if it is the beginning of something more long term. We believe that growth will rebound in the second quarter of the year, as the first quarter was influenced by winter weather conditions and the fall in the price of oil impacted a key sector of the economy. However, we continue to maintain that growth will be relatively modest and that the US Federal Reserve will be slow to raise rates and will do so very carefully. At the same time, the European Central Bank and Bank of Japan will keep to their huge Quantitative Easing (QE) programmes, underpinning global liquidity and supporting modest growth in those regions. The world remains awash with liquidity, keeping bond yields at exceptionally low (and highly unattractive) levels, and providing support for equities. While there are clear risks, none of these appear to be potentially damaging enough to result in a renewed bear market; there will be periods of consolidation but there are sound reasons for believing that this very long bull market and cycle has further still to run.

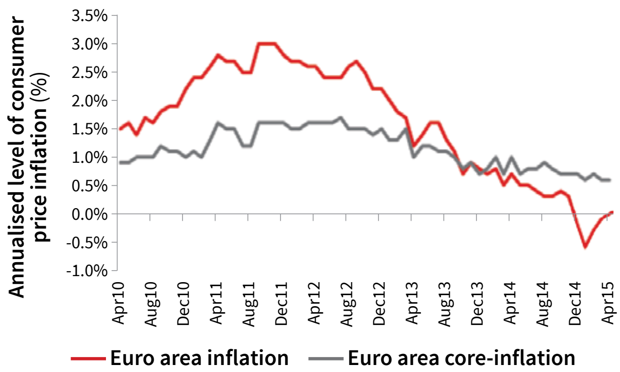
Returning to last month specifically, we saw the US dollar fall in value, the euro recover sharply, commodity prices bounce (led by a pronounced rise in the oil price) and emerging markets outperform developed markets significantly. Most importantly, however, was the steep reversal in the trend of falling government bond yields, especially in Europe, where yields had fallen to all-time lows. From mid-April, when German government 10-year yields reached a low of 0.07%, yields had increased almost tenfold by early May to reach 0.55%. In peripheral Europe, yields moved up by around 0.7%-0.8% in two to three weeks. These increases in yield produced capital losses of circa five percent - exceptionally steep for 'risk free' assets - and took yields to levels higher than when the ECB announced its Quantitative Easing (QE) programme

Figure 1: German government bond yields spike

These moves were arguably a reaction to consensus trades that had been in place for a long time, including bets on US dollar strength and a disinflationary Europe. Perhaps more importantly, however, is the growing evidence that the US economy is slowing. Economic surprises in the US have been pointing down in recent months and most of the data coming out of the US has disappointed. Manufacturing data, new home sales, retail sales and consumer confidence have all been relatively weak, and resulted in Q1 annualised GDP growth of a mere 0.2% quarter-on-quarter (versus expectations of +1.0%). Within this, inventory accumulation added 0.7% to output, suggesting that the slowdown could well continue into the second quarter as this is unwound. Undoubtedly, the strength of the greenback has been an important factor, as reflected by the worst US monthly trade deficit number for nearly seven years.

In contrast, economic indicators from the euro area have surprised on the upside, and while the news has by no means been uniformly positive, data has generally been improving and economic forecasts have been pushed higher, albeit from a low base. Leading indicators also point to an improving trend, and inflation appears to be bottoming out, with the latest euro area Consumer Price Index (CPI) back at zero percent (having been in negative territory in recent months). The well-known problems in Greece rumbled on as negotiations continued between the Greek government and its creditors, but markets have become somewhat immune to the daily shifts in sentiment, with the widely held view that even in the extreme and unlikely event of Greece exiting the euro, the damage would be well contained.

Figure 2: European inflation measure back to zero

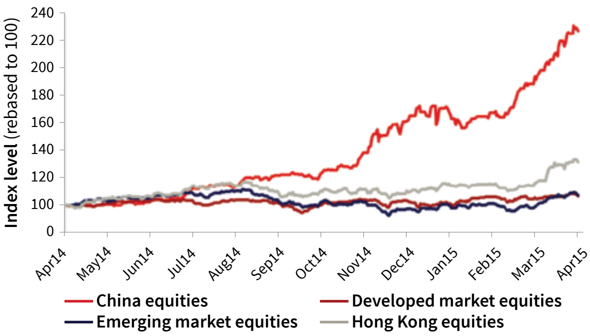


With commodity prices rallying and the dollar falling, confidence returned to emerging markets in April. Brazil was up 9.9% in local currency terms (17.1% in USD terms) and Russia continued to rally adding 3.9% in rouble terms (17.2% in USD terms), but the biggest mover was China, up 18.6% in April and 37.4% year-to-date in renminbi terms. Equity gains in China came despite growing evidence of a further growth slowdown China, reflected in Q1 GDP growth of just 7.0%. As we have seen in other markets in this cycle, weak economic activity resulted in stocks rallying as authorities take action to stimulate activity.

Source: Bloomberg. Returns in US dollars unless otherwise stated. April 2015.

Hopes of further stimulus moves, including infrastructure spending and more interest rate cuts, also continue to rise. Furthermore, retail investing in the Chinese market has risen dramatically this year, with some share prices rising very sharply, following a long period of underperformance. A lot of money has also flowed into Hong Kong, up 13% in the month. This followed the introduction of the Hong Kong-Shanghai Connect plan, which enables mainland investors to buy Hong Kong listed Chinese shares, which have typically traded at a big discount to their mainland counterparts to date. All of this activity has the hallmarks of speculation, risking sudden sharp setbacks as the strength of the rally produces big gains for some investors and pushes valuations in some cases to excessive levels. At the same time, there was the first default of a Chinese company, a property developer, on its US dollar debt, and the first default by a State-owned-Enterprise (SOE); a reminder that China's debt overhang remains a serious hurdle.

Figure 3: China and Hong Kong equities rise ahead of global markets



Against this background, the MSCI World was up 2.3%, led by Asia, Japan and the UK, whereas Europe was down by 1.1% after a very strong run earlier in the year. The US was up 0.9% in April and has risen 1.7% year-to-date. Japan is the best performing major market this year rising by 14.1% in yen terms and 13.9% in US dollar terms. Emerging markets added 7.7%, taking their year-to-date performance to 10.1% well ahead of developed markets at +4.7%. In contrast, government bond markets were generally down in local currency terms, although dollar weakness pushed returns in USD terms on the JP Morgan Global Government Bond index to 0.8% for the month. High-grade corporate bonds followed government bonds down, whereas high yield bonds had a good month adding 1.2%. Emerging market debt also performed well rising by 1.5%, while convertible bond also had another good month adding 3.5%.

Source: Bloomberg. Returns in US dollars unless otherwise stated. April 2015.

Market Performance

Asset Class/Region	Index	To 30 April 2015		
		Currency	Month	Year to date
Developed markets equities				
United States	S&P 500 NR	USD	0,9%	1,7%
United Kingdom	MSCI UK NR	GBP	3,3%	7,4%
Continental Europe	MSCI Europe ex UK NR	EUR	-1,1%	17,6%
Japan	Topix TR	JPY	3,2%	14,1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	5,8%	10,5%
Global	MSCI World NR	USD	2,3%	4,7%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	12,2%	14,3%
Emerging Asia	MSCI EM Asia NR	USD	7,0%	12,6%
Emerging Latin America	MSCI EM Latin America NR	USD	10,3%	-0,3%
BRICs	MSCI BRIC NR	USD	12,6%	16,6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	7,7%	10,1%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0,6%	1,1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0,7%	2,2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0,7%	1,6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1,2%	3,8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-2,2%	0,6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-1,9%	1,4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1,4%	2,8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0,5%	0,9%
Euro High Yield	Barclays European HY 3% Issuer Constraint Total Return Index Value	EUR	0,4%	3,4%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0,4%	-0,2%
Australian Government	JP Morgan Australia GBI TR	AUD	-1,6%	1,6%
Global Government Bonds	JP Morgan Global GBI	USD	0,8%	-1,0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1,0%	-1,2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	3,5%	4,0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1,5%	3,4%

** estimate*

Source: Bloomberg

Market Performance

Asset Class/Region	Index	To 30 April 2015		
		Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	USD	-5,9%	-1,7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-1,1%	7,3%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	7,4%	13,3%
Global Property Securities	S&P Global Property USD TR	USD	0,5%	5,0%
Currencies				
Euro		USD	4,6%	-7,2%
UK Pound Sterling		USD	3,6%	-1,5%
Japanese Yen		USD	0,9%	0,3%
Australian Dollar		USD	3,9%	-3,3%
South African Rand		USD	1,8%	-2,9%
Commodities & Alternatives				
Commodities	RICI TR	USD	7,6%	-0,1%
Agricultural Commodities	RICI Agriculture TR	USD	-0,7%	-8,6%
Oil	Brent Crude	USD	21,2%	16,5%
Gold	Gold Spot	USD	0,1%	0,0%
Hedge funds	HFRX Global Hedge Fund	USD	0,2%	-35,3%
Interest Rates			**Current rate**	**Change at meeting**
United States		USD	0.25%	-
United Kingdom		GBP	0.50%	-
Eurozone		EUR	0.05%	-
Japan		JPY	0.10%	-
Australia		AUD	2.00%	-
South Africa		ZAR	5.75%	-

* *estimate*

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Asset Allocation Dashboard

Positive (green) | Neutral (yellow) | Negative (red)

Asset class	View
Equities	
Developed equities	Neutral
UK equities (relative to developed)	Positive
European equities (relative to developed)	Neutral
US equities (relative to developed)	Negative
Japan equities (relative to developed)	Neutral
Emerging market equities	Positive
Fixed Income	
Government	Negative
Index-linked (relative to government)	Neutral
Investment grade (relative to government)	Neutral
High yield	Neutral
Loans	Positive
Emerging market debt	Positive
Convertible bonds	Neutral
Alternatives	
Commodities	Neutral
Property (UK)	Neutral
Currencies	
GBP	Neutral
Euro	Neutral
Yen	Negative

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