



Weekly Digest

Week ending **15 May 2016**

Patience pays

About a year ago the global equity market reached its recent peak. Since then market sentiment has waxed and waned and investors in stocks would be forgiven for thinking that the rollercoaster style returns make it impossible to generate decent returns for clients. While these turbulent months undoubtedly provided a difficult 'user experience' for those of us who had money invested, we believe that in periods such as these, market volatility provides an opportunity to fund managers able to look through the noise to position their portfolios for tomorrow's opportunities.

With global markets providing a mix of returns over the past twelve months, substantial returns differentials have emerged between major equity regions which have been masked by the headline fall of -4.4% for global equity. For example, the US is actually in positive territory over the period to the tune of 0.5% whereas the UK, Europe and Japan are all in negative territory with local currency returns of -7.5%, -11.3% and -14.0% respectively. Meanwhile most bond markets are in positive territory with the main exception being the US high yield market with a return of -1.1% over twelve months.

The global equity market's recent high was in fact, on 21 May 2015 and as a result the stock market has been underwater to varying degrees ever since. There have been two major sell offs; the first came last summer as the market fell by over 11% in short order. The market had recovered most of that fall by November and then moved sideways until the second sell off took hold at the very start of 2016. That time the market fell by nearly 13% in little over a month to its 11 February trough, but by April the market was ahead of where it started the year thanks to a solid recovery.

The high yield market has followed a similar path in the sense that the spread demanded by the market for these assets over government securities widened in the autumn of last year before moving out substantially this year. Twelve months ago the spread was at its low for the year at circa 4.2% for US high yield and this yield differential doubled to 8.4% at its peak in February 2016. Since then the yield has crunched back in to 6.0% today. High spreads are, all else being equal, symptomatic of increased investor nervousness.

As markets sold off in the early months of the year, the managers of our core portfolios, became increasingly of the opinion that the moves down in risk assets was becoming divorced from fundamentals and looked more and more like capitulation. They actually added to risk in January, buying some of the most unloved assets such as UK and European equity and buying back into the high yield market. While they were a little early into the trades (the markets did not bottom until early February) they were in a position to ride up with markets as they rallied. Their decision to add was not the result of gut instinct, however, rather it was a direct consequence of their disciplined valuation process, which identified in a dispassionate fashion an increasing list of attractive investments as the markets fell. Following the relatively strong returns from February they have again taken the opportunity to take some risk off the table both in the equity and fixed income markets. They have at the same time added to cash and they intend to hold this cash, despite the prospect of meagre returns, on the basis that it provides them with some dry powder that can be put to work quickly should markets sell off again.

The Marketplace

- Equity markets subdued
- Atlanta Fed revises up US GDP forecast
- Brazil's Rousseff impeached
- Chinese inflation in line with expectations
- Oil continues to rally

Market Focus

Global

- Equity markets were relatively subdued last week, with developed market equities falling by 0.3% while their emerging market counterparts added 0.2%. In local currency terms Japan stood out, adding 1.7% in yen terms.
- US Treasuries added 0.3% while American corporates rose by 0.6%. In the UK, gilts added 0.3% in sterling terms, while Japanese government bonds fell by 0.4% in yen terms.

US

- The Atlanta Federal Reserve revised their US GDP forecast for the second quarter of 2016 to +2.2% from +1.7% previously.
- The widely watched NFIB small business optimism index rose to 93.6 from 93.5 in March (versus expectations of 93.0) in April.
- The University of Michigan US consumer confidence survey jumped to an 11-month high in May, printing 95.8 versus survey expectations of 89.5

Europe

- Equities were buoyed early in the week by better-than-expected results from Credit Suisse, while hopes that Greece may be close to securing its next debt deal also helped sentiment.

Emerging Market

- In Brazil, President Dilma Rousseff was impeached following a vote by the Senate. Ms Rousseff is accused of manipulating government accounts, while the on-going corruption scandal surrounding the state-owned oil-company Petrobras continues to cast a shadow. Michel Temer took over as leader of the troubled South American country, with markets hoping his pro-market government appointees will help boost Brazil's economy.
- In China, The Consumer Price Index (CPI) printed +2.3% year-on-year in April (in line with consensus), while the Producer Price Index (PPI) increased by 0.9 points to -3.4% year-on-year (compared to -3.7% expected). Although the PPI number is firmly negative, the reading represents the highest number since December 2014.

Commodities

- In Canada, wild fires in key oil-sands regions continue to push up oil prices, with speculation that one million barrels of oil production have been prevented from coming online each day that the fires have raged. Supply side disruptions in Nigeria and political uncertainty in Venezuela also pushed up prices.
- Brent crude oil rallied by 5.4% last week and is now up by 28.3% year-to-date. The broad RIC1 commodities index added 1.6%.

James Klempster & Jonathan Adamson

Asset Class/Region	Currency	Currency returns			
		Week ending 13 May 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	-0.5%	-0.8%	0.7%	-1.0%
United Kingdom	GBP	0.3%	-1.5%	0.1%	-8.8%
Continental Europe	EUR	0.6%	-2.0%	-7.6%	-12.9%
Japan	JPY	1.7%	-1.5%	-13.8%	-15.9%
Asia Pacific (ex Japan)	USD	0.1%	-3.1%	-1.3%	-18.0%
Australia	AUD	1.1%	1.9%	2.4%	-2.3%
Global	USD	-0.3%	-1.9%	-0.7%	-6.8%
Emerging Market Equities					
Emerging Europe	USD	0.9%	-4.9%	12.7%	-18.8%
Emerging Asia	USD	-0.3%	-3.3%	-2.7%	-20.3%
Emerging Latin America	USD	2.6%	-3.3%	22.1%	-16.2%
BRICs	USD	0.7%	-3.5%	0.1%	-24.5%
MENA countries	USD	0.3%	-1.8%	1.3%	-19.6%
South Africa	USD	-0.4%	-9.5%	7.3%	-24.9%
India	USD	0.3%	-1.3%	-2.5%	-8.5%
Global Emerging Markets	USD	0.2%	-3.9%	2.1%	-20.1%
Bonds					
US Treasuries	USD	0.3%	0.7%	4.0%	5.0%
US Treasuries (inflation protected)	USD	0.6%	0.2%	5.3%	3.4%
US Corporate (investment grade)	USD	0.4%	0.4%	5.8%	5.1%
US High Yield	USD	0.5%	-0.5%	6.9%	-1.5%
UK Gilts	GBP	0.3%	1.8%	5.9%	7.5%
UK Corporate (investment grade)	GBP	0.1%	1.2%	4.5%	4.6%
Euro Government Bonds	EUR	0.2%	0.8%	3.0%	4.5%
Euro Corporate (investment grade)	EUR	-0.2%	0.2%	2.9%	2.4%
Euro High Yield	EUR	-0.3%	-0.6%	3.4%	1.3%
Japanese Government	JPY	-0.4%	0.2%	5.9%	8.5%
Australian Government	AUD	0.1%	1.6%	4.2%	6.6%
Global Government Bonds	USD	-0.8%	-0.4%	7.6%	6.8%
Global Bonds	USD	-0.6%	-0.4%	6.4%	4.9%
Global Convertible Bonds	USD	-0.7%	-1.6%	-0.5%	-4.9%
Emerging Market Bonds	USD	0.9%	0.4%	8.3%	7.2%

Asset Class/Region	Currency	Currency returns			
		Week ending 13 May 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	-1.5%	3.1%	6.5%	10.6%
Australian Property Securities	AUD	0.1%	2.2%	10.9%	13.1%
Asia Property Securities	USD	-1.7%	-5.5%	-1.5%	-9.7%
Global Property Securities	USD	-1.2%	-0.5%	4.9%	0.7%
Currencies					
Euro	USD	-0.8%	-1.2%	4.2%	-0.4%
UK Pound Sterling	USD	-0.5%	-1.6%	-2.5%	-8.8%
Japanese Yen	USD	-1.4%	-2.1%	10.7%	9.7%
Australian Dollar	USD	-1.3%	-4.4%	-0.2%	-10.4%
South African Rand	USD	-3.5%	-7.7%	0.5%	-22.9%
Swiss Franc	USD	-0.3%	-1.6%	2.8%	-6.0%
Chinese Yuan	USD	-0.5%	-0.8%	-0.6%	-5.1%
Commodities & Alternatives					
Commodities	USD	1.6%	-1.0%	7.4%	-21.0%
Agricultural Commodities	USD	1.5%	0.0%	4.8%	-1.6%
Oil	USD	5.4%	-0.6%	28.3%	-28.4%
Gold	USD	-1.2%	-1.5%	19.9%	4.7%
Hedge funds	USD	0.2%	-0.4%	-2.0%	-7.3%

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