FP FINANCIAL PARTNERS

momentum

Weekly Digest

Week ending **19 July 2015**

For as long as I can remember our industry has been building investment products for everyday consumers often with the purpose of outperforming a stock market index or a combination of indices. Furthermore, we would often give ourselves big 'pats on the back' if we achieved that outperformance, despite what this actually meant for the end customer.

My mum is one of those everyday customers and someone who, like many, has never worked in the investment industry and has little knowledge of the inner workings of what she is invested in. Not long ago I asked my mum how the fund investment she made a few years ago via an ISA had performed against its benchmark. Her response: "not sure, benchmark, what do you mean?" Not surprised by her answer, I asked what she wanted from the investment and whether she had achieved it. Pleasingly her answer was: "Oh yes, I had some savings but knew the car only had a few more years left and I wanted to be able to afford a decent replacement when it gave up." And the outcome? "Pretty good actually, the amount grew enough to buy a replacement and pay for a year's insurance". This is the real life outcome of an investment made by a real person, and perhaps a clear example of how we should be thinking when we design solutions, not products.

Most people make an investment to achieve a goal at some point in the future. That might be a comfortable retirement, buying a house, sending the kids to university or like my mum, something as simple as replacing an old car. Rarely do normal people know what the FTSE100 or MSCI World is, let alone invest money specifically to outperform it. After all, for those that do know, any market index could over certain time periods produce negative returns and despite a fund that celebrates beating that index, they too could be returning less than what was invested. Is this a good outcome for the customer? Obviously not!

Now, I am not suggesting the answer is the absolute return route, as this presents a number of other risks to the customer and often leads to low yet positive absolute returns but negative real returns. Customer driven investment solutions should be built to deliver against real customer outcomes that align with their real life goals, within the customer's appropriate level of risk and within a clear time horizon.

As an industry we have started the move toward consumer thinking with the advent of 'Outcomes-Based Solutions', and at Momentum this is very much how they design, build and manage their investment solutions, however there is still some-way to go. At a recent conference I attended, the CEO of an investment management company who use passive funds only was asked if he would include active managers in his model portfolios to which he responded that he would, but only if they agreed to pay back benchmark underperformance.

This left me somewhat bemused as what should we be focusing on? Is it the decision of active or passive managers? Is it the return against an index? No, it's the outcome, stupid!

The **Marketplace**

- Greek parliament approves bailout deal
- Fed expects rate hike before year-end
- US dollar strengthens; commodities fall
- Bank of England expects first hike by "turn of the year"
- Oil prices fall on increased supply expectations

Market **Focus**

Global

- Global equities strengthened last week as recent worries surrounding Greece and China waned. US stocks rose by 2.4%, Europe added 3.8% in euro terms, and the Japanese equity market gained 5.0% in yen terms.
- Major currencies weakened against the US dollar, with the euro falling by 3.0% and the Japanese yen depreciating by 1.0%. Sterling strengthened 0.6% against the greenback, however.

US

- In the US, Chair of the Federal Reserve, Janet Yellen, testified before Congress, and confirmed her view that the first interest rate hike is likely to come this year. Ms Yellen expects inflation to re-appear, as employment continues to rise and wage-growth returns. The Fed Chair added that any rate rises would be "prudent and gradual".
- On Friday, core US consumer price inflation (excluding food and energy prices) rose by 0.2% month-on-month, to take the year-on-year inflation number to +1.8%.

Europe

- The proposed deal between Greece and its creditors was approved by the Greek parliament last week and on Friday, Eurozone finance ministers agreed in principle to the much-needed bridging loan. The European Central Bank (ECB) also increased its Emergency Liquidity Assistance (ELA) to Greek banks, allowing them to re-open for the first time in three weeks.
- In the UK, Bank of England Governor, Mark Carney, also struck a hawkish tone, suggesting the "turn of the year" may be the time when the UK raises interest rates for the first time since the global financial crisis. Gilts remained relatively unaffected, however, and sterling strengthened modestly.

China

- In China, circa 20% of companies are still suspended from the main exchanges, but share prices stabilised somewhat on the back on government intervention. The Shanghai composite index added 2.1% in renminbi terms last week.

Commodities

- Commodities struggled due to the strengthening dollar and fell in aggregate by 2.0%. Gold lost 2.5% last week, while the price of Brent crude fell by 2.8%.
- At the time of writing, the price of Gold has dropped 1.8% today, after falling 5.5% at opening to dip below $1,100 an ounce. The precious metal is now trading at a 5-year low. US dollar strength and news that Chinese gold reserves were lower than expected (despite rising 60% since 2009) are both affecting the price.
- US oil supply data printed higher than forecast, with key stockpile levels rising above expectations. Last week also saw a deal struck between major global powers and Iran on its nuclear programme, further increasing expectations of a supply glut in global markets.

Russell Andrews & Scott Gordon

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 17 July 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	2.4%	3.1%	4.1%	10.2%
United Kingdom	GBP	1.5%	3.8%	4.9%	3.4%
Continental Europe	EUR	3.8%	6.7%	21.3%	23.1%
Japan	JPY	5.0%	2.0%	19.3%	33.0%
Asia Pacific (ex Japan)	USD	1.7%	-2.3%	1.0%	-4.4%
Australia	AUD	3.2%	3.9%	7.1%	7.2%
Global	USD	2.2%	2.6%	5.3%	4.6%
Emerging Market Equities					
Emerging Europe	USD	1.3%	-0.4%	5.9%	-25.2%
Emerging Asia	USD	1.2%	-3.4%	1.4%	-1.9%
Emerging Latin America	USD	-0.3%	-2.7%	-8.9%	-27.3%
BRICs	USD	1.5%	-3.7%	4.3%	-5.0%
MENA countries	USD	1.3%	1.3%	5.6%	-7.1%
South Africa	USD	2.9%	-1.1%	1.3%	-3.8%
India	USD	2.8%	3.3%	4.4%	8.3%
Global emerging markets	USD	1.1%	-2.9%	0.0%	-9.3%
Bonds					
US Treasuries	USD	0.5%	0.1%	0.0%	2.6%
US Treasuries (inflation protected)	USD	0.3%	-0.2%	-0.1%	-1.7%
US Corporate (investment grade)	USD	0.5%	0.1%	-0.8%	0.5%
US High Yield	USD	0.1%	0.0%	2.5%	0.0%
UK Gilts	GBP	0.1%	-0.5%	-1.3%	7.9%
UK Corporate (investment grade)	GBP	0.2%	0.0%	-0.8%	6.0%
Euro Government Bonds	EUR	1.2%	1.2%	-0.1%	5.0%
Euro Corporate (investment grade)	EUR	1.0%	0.7%	-0.9%	2.2%
Euro High Yield	EUR	1.1%	1.4%	2.7%	3.4%
Japanese Government	JPY	0.1%	0.1%	-0.7%	2.2%
Australian Government	AUD	0.0%	0.5%	0.8%	5.9%
Global Government Bonds	USD	-0.4%	-0.8%	-4.2%	-8.0%
Global Bonds	USD	-0.5%	-0.8%	-4.1%	-7.5%
Global Convertible Bonds	USD	0.2%	-0.2%	1.3%	-3.8%
Emerging Market Bonds	USD	0.0%	0.5%	1.5%	-1.6%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 17 July 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	1.0%	5.0%	-2.0%	6.6%
Australian Property Securities	AUD	2.9%	4.0%	8.3%	16.1%
Asia Property Securities	USD	3.8%	0.1%	10.4%	6.2%
Global Property Securities	USD	2.1%	2.6%	1.8%	2.8%
Currencies					
Euro	USD	-3.0%	-2.8%	-10.5%	-19.9%
UK Pound Sterling	USD	0.6%	-0.7%	0.2%	-8.7%
Japanese Yen	USD	-1.0%	-1.2%	-3.5%	-17.7%
Australian Dollar	USD	-1.0%	-4.4%	-9.8%	-21.2%
South African Rand	USD	0.8%	-1.6%	-6.4%	-12.9%
Swiss Franc	USD	-2.4%	-2.8%	3.4%	-6.7%
Chinese Yuan	USD	0.0%	0.0%	-0.1%	-0.1%
Commodities & Alternatives					
Commodities	USD	-2.0%	-6.1%	-6.9%	-29.2%
Agricultural Commodities	USD	-2.2%	-3.9%	-4.8%	-9.9%
Oil	USD	-2.8%	-10.2%	-0.4%	-47.1%
Gold	USD	-2.5%	-3.2%	-4.3%	-14.0%
Hedge funds	USD	0.7%	0.6%	1.9%	0.1%

* Estimate

Source: Bloomberg

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