Weekly Digest

Week ending **22 November 2015**

We are at an interesting juncture where developed markets' monetary policy is no longer created equal. In the developed markets, the US is in the best shape economically, but the market is expensive. On the flipside both Japan and Europe face economic headwinds, with the former's arguably more structural and the latter's more cyclical. Nevertheless, these economies have stock markets with more compelling valuations and this, combined with the prospect of further monetary stimulus, leads us to believe that both Europe and Japan should outperform the US in local currency terms. The UK sits somewhere in the middle, with a decent economic prognosis, combined with attractively valued stocks.

In the US, Chair of the Federal Reserve, Janet Yellen, made her strongest indication yet that interest rates will rise before the end of 2015: "What the committee has been expecting is that the economy will continue to grow at a pace that is sufficient to generate further improvements in the labor (sic) market and to return inflation to our two percent target…if the incoming information supports that expectation then our statement indicates that December would be a live possibility." Last week also saw the Federal Reserve release minutes of its latest committee meeting which had been surprisingly dovish which suggests an intent to balance the Committee's desire to increase rates with the need to keep the market "on side". It was suggested that any further rises will therefore be gradual and as a result, last week the US equity market had its best week since December 2014.

On the other hand Europe and Japan still seem committed to loose monetary policy. In Europe, ECB President Mario Draghi stated: "we will do what we must to raise inflation as quickly as possible…[this]…is what our price-stability mandate requires of us". Perhaps this is corroborated by the news that European economic activity hit a near 5-year high this month according to a survey undertaken by Markit Economics. While activity may be strong, the report does little to remove concerns over inflation or lack thereof as the report confirms that output prices fell for the ninth month this year.

Last week's data confirmed Japan has tipped back into recession. The BoJ is yet to suggest that further policy loosening is necessary with the Bank taking the stance that the Japanese economy "has continued to recover moderately, although exports and production have been affected by the slowdown in emerging markets". Nevertheless in recent months Governor Kuroda has suggested that the BoJ will monitor risks and adjust policy as appropriate.

The UK is likely to start increasing interest rates after the US and this affords the Bank of England a watching brief: if the US rises are greeted well it is likely the UK will follow. Continued lowly inflation afford central bankers the option of being circumspect, but there is an air of inevitability about the US hike now.

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

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The **Marketplace**

- Fed minutes boost markets
- US Core CPI rises 0.2% month-on-month
- Mario Draghi hints at more stimulus
- Bank of Japan decides against QE expansion
- Metals under pressure

Market **Focus**

Global

- Developed market equities added 3.0% last week, while emerging equities rose by 2.7%.
- European government bonds rallied adding 0.7%, while Treasuries remained largely flat. US high yield bonds fell by 0.5% taking their month-to-date returns to -2.2%.
- Mario Draghi, President of the European Central Bank, also struck a dovish tone, hinting at further stimulus measures, stating “we will do what we must to raise inflation as quickly as possible”.
- The Bank of Japan held off on expanding its current stimulus policy, despite the Japanese economy falling back into a recession. Governor Haruhiko Kuroda stated that the recent GDP contraction was due to inventory adjustments and reiterated his confidence in the “moderate recovery” of the Japanese economy.
- The euro devalued by 1.2% against the dollar last week.

United States

- The minutes from the latest Federal Reserve meeting balanced their desire to raise rates and the need to keep markets “onside”, with the committee emphasising that the path of interest rate rises will be gradual.
- The dollar continues to strengthen, however, ahead of the first expected hike in December, adding 0.6% against a basket of major currencies. It is now up by 10.3% year-to-date.
- The US Core Consumer Price Index (CPI) printed +0.2% month-on-month in October versus -0.2% in September; the year-on-year rate remained steady at 1.9%.

China

- The strength of the greenback and concerns around a Chinese slowdown continue to put pressure on the resources sector as metal prices continue to fall. The price of iron ore reached its lowest level on record, while copper, zinc and nickel are also at multi-year lows.

Commodities

- Brent crude ended the week having added 2.4%, but oil continues to see pronounced swings in price and last week was no exception.

James Klempster, CFA & Scott Gordon

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Asset Class/Region	Currency	Currency returns			
		Week ending 20 Nov. 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	3.3%	0.6%	2.8%	3.3%
United Kingdom	GBP	3.7%	-0.1%	-0.7%	-2.4%
Continental Europe	EUR	2.9%	1.6%	14.7%	16.0%
Japan	JPY	1.1%	2.9%	15.9%	16.9%
Asia Pacific (ex Japan)	USD	2.4%	-0.4%	-7.7%	-8.3%
Australia	AUD	4.1%	1.0%	1.5%	3.6%
Global	USD	3.0%	0.0%	1.4%	0.6%
Emerging Market Equities					
Emerging Europe	USD	5.2%	2.3%	-2.9%	-19.6%
Emerging Asia	USD	1.6%	-1.2%	-7.1%	-6.5%
Emerging Latin America	USD	4.8%	3.5%	-22.2%	-29.2%
BRICs	USD	2.9%	1.1%	-7.9%	-10.7%
MENA countries	USD	-0.8%	-2.8%	-12.8%	-21.4%
South Africa	USD	7.8%	-1.6%	-12.0%	-15.4%
India	USD	1.2%	-3.6%	-8.3%	-11.4%
Global emerging markets	USD	2.7%	-0.5%	-9.9%	-12.7%
Bonds					
US Treasuries	USD	0.1%	-0.6%	0.8%	1.8%
US Treasuries (inflation protected)	USD	0.7%	-0.3%	-1.1%	-1.4%
US Corporate (investment grade)	USD	0.2%	-0.5%	-0.2%	1.1%
US High Yield	USD	-0.5%	-2.2%	-2.0%	-3.0%
UK Gilts	GBP	0.9%	0.6%	1.7%	5.0%
UK Corporate (investment grade)	GBP	1.0%	1.0%	1.1%	3.6%
Euro Government Bonds	EUR	0.7%	0.3%	2.6%	4.9%
Euro Corporate (investment grade)	EUR	0.4%	0.5%	0.1%	0.9%
Euro High Yield	EUR	0.3%	0.7%	3.1%	3.5%
Japanese Government	JPY	0.0%	-0.2%	0.4%	1.9%
Australian Government	AUD	0.3%	-1.6%	1.7%	5.0%
Global Government Bonds	USD	0.2%	-1.6%	-3.2%	-3.0%
Global Bonds	USD	0.2%	-1.5%	-3.6%	-3.8%
Global Convertible Bonds	USD	0.9%	-0.3%	1.0%	0.1%
Emerging Market Bonds	USD	1.4%	0.4%	3.9%	2.1%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 20 Nov. 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	3.7%	-0.9%	-0.5%	3.6%
Australian Property Securities	AUD	3.7%	-1.3%	8.1%	13.1%
Asia Property Securities	USD	2.2%	-0.9%	3.2%	2.1%
Global Property Securities	USD	3.2%	-1.2%	-0.1%	1.4%
Currencies					
Euro	USD	-1.2%	-3.3%	-12.0%	-15.1%
UK Pound Sterling	USD	-0.3%	-1.5%	-2.5%	-3.2%
Japanese Yen	USD	-0.1%	-1.8%	-2.5%	-3.0%
Australian Dollar	USD	1.4%	1.2%	-11.6%	-16.1%
South African Rand	USD	3.0%	-1.0%	-17.1%	-21.4%
Swiss Franc	USD	-1.2%	-3.0%	-2.4%	-5.9%
Chinese Yuan	USD	-0.2%	-1.1%	-2.8%	-4.1%
Commodities & Alternatives					
Commodities	USD	-0.8%	-7.2%	-22.2%	-32.4%
Agricultural Commodities	USD	0.5%	-3.1%	-13.9%	-13.8%
Oil	USD	2.4%	-9.9%	-22.1%	-43.7%
Gold	USD	-0.6%	-5.6%	-9.0%	-9.7%
Hedge funds	USD	0.3%	-0.8%	-2.4%	-2.5%

* Estimate

Source: Bloomberg

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Important notes