momentum

weekly review

Week ending 22 March 2015

global investment management

- US Fed releases dovish statement
- US dollar falls; euro rises
- Bank of England worried about inflation
- Greece faces "impossible" debt payments
- WTI crude bounces off six-year low

Global equities returned 3.2% last week, as the US bounced back with gains of 2.7% after three weeks of negative returns. European equities continued to rise, adding 1.7%, to take their year-to-date numbers to 19.8% in euro terms. Emerging markets also fared well returning 3.2% with Emerging Europe adding 6.7% and Latin American equities rising by 5.5%.

A dovish Federal Reserve (Fed) statement mid-week helped equity markets, with fixed income markets also posting positive returns. US Treasuries returned 1.1% and US investment grade bonds added 1.0%. Gold gained 2.1% to pare back some of its recent losses. As widely expected, the Fed dropped the word "patient" from its Federal Open Market Committee (FOMC) statement, but Fed Chair Janet Yellen reiterated that the economic conditions seen in the US do not yet warrant a move on interest rates. Moreover, the central bank made a significant downward adjustment to its forward-looking interest rate expectations, to bring them more in line with market forecasts and to remove any suspicions of a significant shift away from dovish policy. The move comes on the back of some disappointing economic data releases including subdued wage growth.

In response to the FOMC statement, currency markets saw increased volatility as the US dollar moved substantially against a basket of major currencies. Although the DXY index, which measures the strength of the US dollar against a basket of major currencies, regained some of its losses towards the end of the week, it still finished the week having fallen by 2.4%. The euro appreciated by 3.1% against the greenback in the process, but the European currency remains 10.6% weaker year-to-date against the US dollar. The pound strengthened by 1.4% against the greenback.

In the UK, minutes from the Bank of England Monetary Policy Committee meeting were also interpreted as being relatively dovish. The pound has now appreciated 7.2% against the tumbling euro year-to-date and, according to the central bank, further disinflationary pressure is likely. This suggests that policy makers may be looking farther ahead than early 2016 to raise rates. Employment in the UK hit a record high in the three months to January reaching 73.3%, but annualised year-on-year wage growth at +1.8% over the same time period disappointed against forecasts of +2.2%. Wage growth excluding bonuses for the three months fell from +1.7% to +1.6% on an annualised, year-on-year basis.

In Europe, sentiment was boosted by headlines suggesting that progress was being made between Greece and its creditors. This morning, however, the

Financial Times (FT) is running stories that highlight the significant hurdles that still lie ahead. Greece's Prime Minister, Alexis Tsipras, is to meet with the German Chancellor, Angela Merkel, today to discuss Greece's urgent liquidity needs. The FT quotes a letter sent by Mr Tsipras to Ms Merkel ahead of this discussion, quoting him as saying that it will be "impossible" for Greece to service the debt payments due over the coming weeks, without immediate financial assistance from Europe. Spain's Economy Minister, Luis de Guindos, has rebuffed any such calls in an interview with the newspaper, insisting that Greece should first implement the reform package agreed upon when leaders sought to extend Greece's bailout package a few weeks ago. It seems likely that brinkmanship will continue over the coming weeks and months and the risk of a political miscalculation remains real.

Volatility in energy markets also continued, with Brent crude adding 1.2% (down 11.6% month-to-date) and the WTI crude adding 2.0% to move off a six-year low of USD 43.2 per barrel. At time of writing, Brent and WTI crude prices are $54.6 and $45.6 per barrel respectively.

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

		Currency returns			
Asset class/region	Currency	Week ending 20 March	Month to date	YTD 2015	12 months
Developed markets equities					
United States	USD	2.7%	0.2%	2.7%	14.2%
United Kingdom	GBP	4.3%	1.6%	7.8%	11.0%
Continental Europe	EUR	1.7%	4.0%	19.8%	26.0%
Japan	JPY	1.3%	3.7%	12.3%	40.7%
Asia Pacific (ex Japan)	USD	2.8%	-0.4%	4.3%	11.2%
Australia	AUD	2.9%	1.3%	11.9%	18.0%
Global	USD	3.2%	0.2%	4.2%	9.4%
Emerging markets equities					
Emerging Europe	USD	6.7%	-3.6%	1.9%	-18.6%
Emerging Asia	USD	2.3%	-0.5%	4.4%	15.2%
Emerging Latin America	USD	5.5%	-7.0%	-9.1%	-14.4%
BRICs	USD	3.6%	-3.1%	2.3%	9.7%
MENA countries	USD	-4.1%	-3.2%	2.5%	-4.4%
South Africa	USD	5.8%	-2.9%	2.2%	10.7%
India	USD	0.6%	-3.9%	5.3%	31.4%
Global emerging markets	USD	3.2%	-2.0%	1.6%	5.6%
Bonds					
US Treasuries	USD	1.1%	0.6%	1.7%	6.5%
US Treasuries (inflation protected)	USD	2.0%	-0.2%	1.7%	4.6%
US Corporate (investment grade)	USD	1.0%	0.2%	2.2%	7.5%
US High Yield	USD	0.0%	-1.0%	2.1%	2.0%
UK Gilts	GBP	2.1%	2.3%	3.1%	15.3%
UK Corporate (investment grade)	GBP	1.3%	1.6%	3.6%	13.5%
Euro Government Bonds	EUR	0.0%	1.3%	4.4%	14.6%
Euro Corporate (investment grade)	EUR	-0.1%	-0.2%	1.3%	7.7%
Euro High Yield	EUR	-0.4%	-0.4%	2.7%	5.6%
Japanese Government	JPY	1.0%	0.5%	-0.1%	3.5%
Australian Government	AUD	0.9%	0.5%	2.8%	13.3%
Global Government Bonds	USD	1.8%	-0.6%	-1.5%	-3.2%
Global Bonds	USD	1.6%	-0.9%	-2.1%	-3.3%
Global Convertible Bonds	USD	2.3%	-0.1%	1.4%	-2.8%
Emerging Market Bonds	USD	1.6%	-0.2%	1.1%	6.1%

Source: Bloomberg

		Currency returns			
Asset class/region	Currency	Week ending 20 March	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	5.6%	4.2%	7.2%	28.5%
Australian Property Securities	AUD	2.1%	1.6%	12.6%	32.9%
Asia Property Securities	USD	1.2%	-0.8%	3.4%	16.5%
Global Property Securities	USD	4.0%	1.0%	5.5%	19.4%
Currencies					
Euro	USD	3.1%	-3.3%	-10.6%	-21.5%
UK Pound Sterling	USD	1.4%	-3.1%	-4.0%	-9.4%
Japanese Yen	USD	1.2%	0.0%	0.0%	-15.3%
Australian Dollar	USD	1.8%	-0.4%	-4.9%	-14.0%
South African Rand	USD	3.9%	-2.9%	-3.7%	-9.4%
Swiss Franc	USD	3.1%	-2.1%	2.0%	-9.3%
Chinese Yuan	USD	0.9%	1.0%	0.0%	0.3%
Commodities & Alternatives					
Commodities	USD	1.8%	-4.7%	-6.4%	-29.9%
Agricultural Commodities	USD	2.5%	-2.3%	-6.5%	-21.8%
Oil	USD	1.2%	-11.6%	-3.5%	-48.0%
Gold	USD	2.1%	-2.5%	-0.2%	-10.9%
Hedge funds	USD	0.3%	0.6%	2.2%	0.6%

Source: Bloomberg

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