momentum

weekly digest

Week ending 14 August 2016

global investment management

All that glitters is … mostly silver

Great Britain enjoyed a bumper haul at the Rio Olympics this weekend which saw the nation vault over the Chinese into second place in the medals table behind the United States. Team GB continues to excel in disciplines both in and out of the water most notably in the men's gymnastics where Max Whitlock won our first (and second) ever Olympic gold medals in the sport.

With gold and bronze medals to his name from both the London and Rio Olympics, one might think he'd want a silver to complete the trio but literally scratch below the surface and he already has one. Silver medals are indeed just that - being made entirely from Sterling silver (itself an alloy of 92.5% silver by weight and 7.5% other metals) while Olympic gold medals are made of Sterling silver and plated with 6 grams of gold. Other commentators will remind you every few years what a gold medal is worth but for the first time this century (and millennium for the Olympic purists) the gold medal is worth less at this Games than four years prior, valued at over $600 today and below the London Olympic peak over $700. In gymnastic parlance a shaky dismount. However, this quadrennial price comparison ignores the value investors have placed more recently on these precious metals year to date with gains of 26% for gold and 43% for silver. Had there been an Olympics a year ago, Mr Whitlock's gold prize might have been worth closer to $500. Precious metals indeed but not quite as strong as the UK's best performing 'gilt' which has returned 50% over the last year.

Gold is a notoriously difficult commodity to value but with real 10 year US rates falling back to near zero, the yellow metal should remain well supported. Indeed, for folk in the Eurozone and Switzerland these metals have an implicit yield when owned in lieu of cash deposits and more recently pre and post Brexit uncertainty provided another boost to the gold price. The US dollar remains one of the primary factors affecting the price and in the coming months this will be heavily influenced by US Federal Reserve (Fed) policy. Whilst the probability of a Fed rate hike before year end remains finely balanced today at ~45%, an absence of conviction in the market pricing means that nearly half will be surprised and that in itself may cause some volatility. Gold is held by investors for a number of reasons, all of which may be valid at times or together. At a time when the cost of carry is near zero and likely to stay that way, having some exposure to gold could prove a useful hedge to event risk as well as nascent inflation. Risk markets are currently buoyed by a tide of liquidity amidst a sea of disperse but not wholly unreasonable valuations. With forward looking risk pricing near multi year lows, the value diversification brings to multi asset investors increases and that in itself can provide the springboard to better risk adjusted performance.

The Marketplace

- Gilt prices rise as BoE suffers from supply drought
- US July data comes in below expectations
- Encouraging economic data out of China
- EU waives budget deficit fines for Spain and Portugal
- Oil rebounds from its bear market

Market Focus

UK

- UK 10-year and 30-year gilt yields fell by 0.15 and 0.25 percentage points respectively over the last week to reach new record lows. The discrepancy between demand and supply was illustrated by the Bank of England's inability to buy the planned GBP 1.17bn of long term gilts in only the second day of its new quantitative easing program – GBP 1.12bn was bought as gilt prices continued to rise.
- Year-to-date, UK gilt prices have risen 18.0%.
- UK equities rose 2.3% over the week, whilst sterling depreciated another 1.1% against the dollar; the rate is now USD 1.29 per pound.

US

- Economic data released on Friday pushed back the prospect of an interest rate rise further. July retail sales growth came in at 0.0% versus expectation of +0.4%, auto sales dropped by 0.3% month-on-month versus expectations of +0.1% and the producer price index unexpectedly fell by 0.4% for the first time since March.

China

- July's economic data, although slightly below forecasts, reinforced hopes that China would not suffer a hard landing as it rebalances towards a more consumer focused economy. Fixed Asset investment, industrial production and retail sales rose by 8.1%, 6.0% and 10.2% year-on-year, respectively.

Europe

- On Tuesday the European Union, citing "exceptional circumstances", formally agreed to waive fines for Spain and Portugal over their budget deficits last year. Spain's deficit was 5.1% of its GDP whilst Portugal's was 4.4% – the limit is meant to be 3%. New deadlines have been set for both countries to rein in their spending.

Commodities

- Brent crude oil prices rose 6.1% last week to USD 46.97 per barrel amid re-emerging prospects that oil producers may agree to freeze production at an informal meeting in Algeria next month. The rise was in despite of US oil inventories increasing by 1.1 million barrels throughout the week, against expectations of a 1.3 million barrel decline.
- The broad commodities index rose 1.3% over the week. Brent crude oil is now up 26.0% year-to-date but down 5.4% over twelve months.

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

Alex Harvey, CFA & Oliver Bickley

Asset class/region	Currency	Currency returns Week ending 12 August	Month to date	YTD 2016	12 months
Developed markets equities					
United States	USD	0.1%	0.6%	7.9%	6.3%
United Kingdom	GBP	2.3%	3.5%	14.5%	9.9%
Continental Europe	EUR	2.0%	1.6%	-2.7%	-6.2%
Japan	JPY	3.4%	0.0%	-13.5%	-18.9%
Asia Pacific (ex Japan)	USD	2.3%	3.1%	11.5%	7.9%
Australia	AUD	0.7%	-0.4%	7.0%	7.8%
Global	USD	1.2%	0.9%	5.9%	1.8%
Emerging markets equities					
Emerging Europe	USD	2.7%	3.9%	15.5%	0.9%
Emerging Asia	USD	2.5%	4.3%	11.8%	8.0%
Emerging Latin America	USD	3.4%	4.7%	38.7%	17.8%
BRICs	USD	3.3%	4.8%	14.8%	3.3%
MENA countries	USD	1.4%	0.8%	1.8%	-14.3%
South Africa	USD	4.4%	4.3%	31.2%	5.9%
India	USD	-0.2%	0.3%	9.2%	2.1%
Global emerging markets	USD	2.8%	4.3%	16.5%	8.2%
Bonds					
US Treasuries	USD	0.4%	-0.3%	5.8%	5.3%
US Treasuries (inflation protected)	USD	0.4%	0.0%	7.2%	5.0%
US Corporate (investment grade)	USD	0.8%	0.0%	9.2%	8.7%
US High Yield	USD	0.9%	1.2%	13.4%	8.0%
UK Gilts	GBP	2.3%	3.1%	18.0%	17.0%
UK Corporate (investment grade)	GBP	1.5%	3.2%	15.3%	14.8%
Euro Government Bonds	EUR	0.3%	0.1%	6.7%	7.2%
Euro Corporate (investment grade)	EUR	0.3%	0.3%	6.1%	5.7%
Euro High Yield	EUR	0.6%	0.9%	6.9%	5.7%
Japanese Government	JPY	0.2%	-0.7%	6.0%	7.6%
Australian Government	AUD	-0.1%	-0.1%	6.9%	7.0%
Global Government Bonds	USD	0.9%	0.2%	11.3%	10.7%
Global Bonds	USD	0.9%	0.2%	9.4%	8.4%
Global Convertible Bonds	USD	1.1%	1.0%	2.9%	1.8%
Emerging Market Bonds	USD	1.0%	1.5%	15.0%	15.7%

Source: Bloomberg

Asset class/region	Currency	Currency returns Week ending 12 August	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	-0.2%	-2.4%	14.6%	17.4%
Australian Property Securities	AUD	-1.8%	-3.7%	15.4%	17.7%
Asia Property Securities	USD	2.4%	1.8%	9.8%	5.2%
Global Property Securities	USD	1.0%	-0.4%	13.6%	12.8%
Currencies					
Euro	USD	0.7%	-0.1%	2.8%	0.0%
UK Pound Sterling	USD	-1.1%	-2.3%	-12.3%	-17.2%
Japanese Yen	USD	0.5%	0.7%	18.7%	22.6%
Australian Dollar	USD	0.4%	0.7%	4.9%	3.6%
South African Rand	USD	1.8%	3.1%	14.8%	-5.3%
Swiss Franc	USD	0.6%	-0.5%	2.8%	0.1%
Chinese Yuan	USD	0.2%	0.0%	-2.2%	-3.8%
Commodities & Alternatives					
Commodities	USD	1.3%	1.4%	7.0%	-8.0%
Agricultural Commodities	USD	-0.7%	-0.4%	1.8%	-1.7%
Oil	USD	6.1%	10.6%	26.0%	-5.4%
Gold	USD	0.0%	-1.1%	25.9%	18.8%
Hedge funds	USD	0.3%	0.4%	0.9%	-3.0%

Source: Bloomberg

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