

Viewpoint

Monthly market update

April 2016



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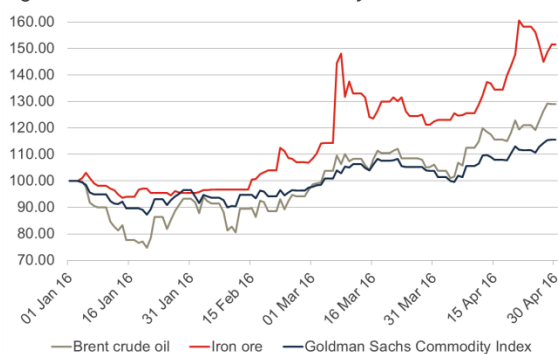
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1. Market commentary

Markets broadly continued their upward trend in April, extending the rally witnessed since the bottom in mid-February. The rises were much less dramatic than in March, however, and markets more mixed. The MSCI World index gain of 1.6% in US dollars came in no small part from currency moves; the trade weighted dollar index fell a further 1.6% in the month, taking it to its lowest since early 2015. The year-to-date decline of the greenback is now 5.6%.

Commodity markets continued their remarkable rally over the month: Brent crude oil rose by 21.5% in the month, rising almost 30% year-to-date, while iron ore rallied 23.7%. By month-end many global equities had fully recovered the ground lost in the first six weeks of the year, with returns from MSCI World now up 0.9% year-to-date in US dollars. In local currency terms, Japan was the notable underperformer among the major equity markets during April, down 0.4%, while the US experienced a 0.4% gain. The UK and continental Europe experienced larger rallies of 1.5% and 1.6%, in sterling and euro terms respectively. In US dollar terms, non-US returns were boosted by weakness in the greenback; most notably Japan's index gained 4.9% in dollar terms. Emerging markets rose by 0.5% in aggregate, within which China was down 1.9% in April, and 15.4% year-to-date, in local currency terms).

Figure 1. Correlation in commodities, year-to-date

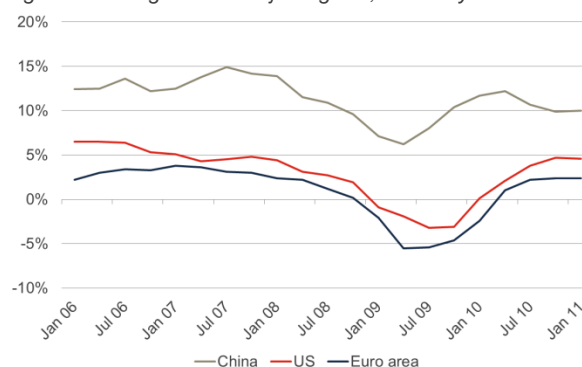


Credit again participated fully in the rally in risk assets, with investment grade bonds adding 1.2% in April, high yield rising by 3.4% and EM debt up by 1.8%, in US dollar terms. In contrast, yields on safe haven government bonds rose over the month, so local currency returns from the major markets were generally negative.

A further recovery in the oil price continued to support risk assets, reducing the risk of defaults and bringing hopes of an end to some of the capital investment cuts across the energy and related sectors. Despite the failure of the mid-April meeting of oil exporting nations to agree a production freeze, the oil price continued to rise, suggesting that the market is now looking forward to the prospect of a better balance between supply and demand; significant falls in US production forecasts, together with rising demand, point to the current oversupply in the oil market to be at or close to an end by early 2017.

The growth slowdown, which has been a key factor behind the falls in equity markets over the past year, showed some signs of a modest and patchy recovery over the month. Perhaps most importantly the injections of liquidity credit into the Chinese economy appear to be having the desired effect: first quarter GDP growth came in at 6.7% annualised. Elsewhere as expected the US produced sluggish first quarter GDP growth of 0.5%, hit by weak business investment. The recovery in the euro area showed signs of picking back up with quarterly growth of 0.6%, the highest since the same period last year.

Figure 2. GDP growth in major regions, over 10 years



Central banks again had a major influence on markets in the month. The US Federal Reserve (Fed) painted a more mixed picture and are clearly wrestling with the difficulty of balancing a soft economy against strong employment, and signs that core inflation is beginning to pick up - the Fed's preferred measure, core PCE, is now running at 1.6% year-on-year and trending upwards. The most significant decision of the month came from the Bank of Japan however, where the decision not to ease further, and to push out expectations of reaching its 2% inflation target to

March 2018, disappointed investors. The yen has risen sharply since the January decision to cut interest rates into negative territory, and strengthened once more after the latest announcements. The economy has slowed considerably in recent months while inflation remains negative; investors are becoming increasingly worried that reforms are not working.

Figure 3. Japanese yen exchange rate, over 6 months



After a strong recovery, and with a background of subdued growth, continuing debt overhang and question marks over the impact of monetary policy, markets are entering a more uncertain period. On the positive side, the worst consequences of the crash in

oil and commodities are now behind us; developed economies continue to grow, albeit modestly; and with about one third of global government bonds trading with negative yields, risk assets are likely to see continuing support. With these competing forces on markets it is likely that the volatility we have witnessed so far in 2016 will be a feature in the months if not years ahead. There is also a risk, for the first time since the global financial crisis, that the Fed could be underestimating the pick-up in core inflation in recent months. All eyes will be on the data and the Fed as the year progresses, and there is a distinct possibility that the market's – currently low – expectations for interest rate rises will begin to tick up. This would lead to a recovery in the US dollar after its sharp fall this year, which in turn would provide more of a headwind for markets. Against this background, in the shorter term a period of consolidation in markets is due, but further upward progress is likely over the next 12-18 months. In these conditions we believe it is important to remain patient.

Source: Bloomberg. Returns in US dollars unless otherwise stated. April 2016.

2. Market performance

		To 29 April 2016		
Asset class/region	Index	Currency	1 month	Year-to-date
Developed markets equities				
United States	S&P 500 NR	USD	0.4%	1.5%
United Kingdom	MSCI UK NR	GBP	1.5%	1.7%
Continental Europe	MSCI Europe ex UK NR	EUR	1.5%	-5.8%
Japan	Topix TR	JPY	-0.5% ^e	-12.5% ^e
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.1%	1.8%
Global	MSCI World NR	USD	1.6%	1.2%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	3.7%	18.5%
Emerging Asia	MSCI EM Asia NR	USD	-1.3%	0.6%
Emerging Latin America	MSCI EM Latin America NR	USD	6.0%	26.2%
BRICs	MSCI BRIC NR	USD	2.3%	3.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.5%	6.3%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.1%	3.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.4%	5.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.4%	5.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	3.9%	7.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.2%	3.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	3.2%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.1%	2.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	2.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	2.0%	4.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	1.1%	5.7%
Australian Government	JP Morgan Australia GBI TR	AUD	0.1%	2.6%
Global Government Bonds	JP Morgan Global GBI	USD	1.2%	8.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.0%	6.9%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	1.2%	1.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.9%	7.9%

Source: Bloomberg. e denotes estimate

		To 29 April 2016		
Asset class/region	Index	Currency	1 month	Year-to-date
Property				
US Property Securities	MSCI US REIT NR	USD	-2.4%	3.3%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	2.8%	8.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	3.3%	4.2%
Global Property Securities	S&P Global Property USD TR	USD	0.3%	5.5%
Currencies				
Euro		USD	0.6%	5.4%
UK Pound Sterling		USD	1.6%	-1.0%
Japanese Yen		USD	5.9%	13.1%
Australian Dollar		USD	-0.6%	4.4%
South African Rand		USD	3.8%	8.8%
Commodities & Alternatives				
Commodities	RICI TR	USD	9.5%	8.5%
Agricultural Commodities	RICI Agriculture TR	USD	5.1%	4.9%
Oil	Brent Crude Oil	USD	21.5%	29.1%
Gold	Gold Spot	USD	4.9%	21.8%
Hedge funds	HFRX Global Hedge Fund	USD	0.4%	-1.5%
Interest rates		Current rate		
United States		0.50%		
United Kingdom		0.50%		
Eurozone		0.00%		
Japan		-0.10%		
Australia		1.75%		
South Africa		7.00%		

Source: Bloomberg. e denotes estimate

3. Asset allocation dashboard

Positive	Neutral	Negative
Asset class	View	
Equities		
Developed equities		
UK equities (relative to developed)		
European equities (relative to developed)		
US equities (relative to developed)		
Japan equities (relative to developed)		
Emerging market equities		
Fixed Income		
Government		
Index-linked (relative to government)		
Investment grade (relative to government)		
High yield		
Loans		
Emerging market debt		
Convertible bonds		
Alternatives		
Commodities		
Property (UK)		
Currencies		
GBP		
Euro		
Yen		



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