momentum

Viewpoint

Monthly market update

March 2015

global investment management

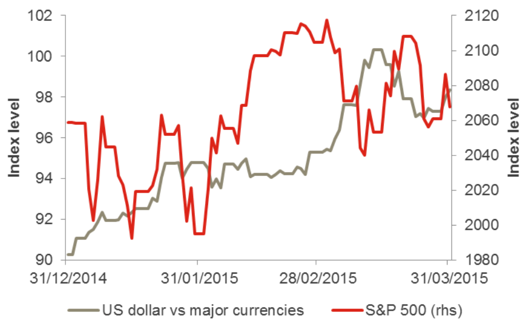
Contents

1. Market commentary

Markets continued to be dominated by central bank statements and policy moves in March. The European Central Bank (ECB) announced details of its quantitative easing programme and started buying assets at a rate of €60 billion per month from 9 March. Meanwhile, the Federal Reserve (Fed) indicated its desire to begin the process of policy normalisation, dropping the word ‘patient’ when referring to its stance on raising interest rates, but subsequent data prints have now pushed back expectations for a US interest rate hike from June to September. In the background, the Bank of Japan also remains accommodative, continuing to purchase assets at the rate of $50-60 billion per month.

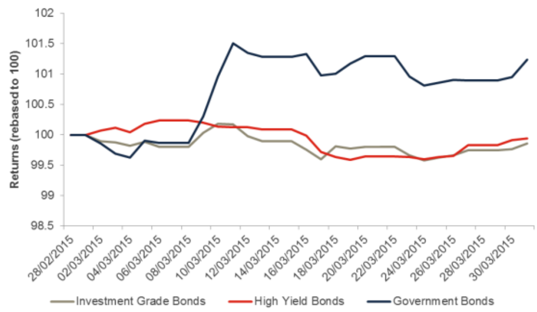
These actions drove markets, with European and Japanese equities and bonds outperforming significantly in March, while US equities struggled to make progress. The biggest impact was felt in the currency markets, where the euro depreciated by 4.2% relative to the US dollar. European equities added 3.2% in euro terms in March, taking their rise so far this year to 18.9% (5.4% in US dollar terms). Japan added 2.1% over the month whereas the US continued to struggle, falling by 1.6%. The US economy, while still growing, is feeling the effect of a strengthening dollar filter through to export orders.

Figure 1: Strengthening US dollar weighs on US equities



Global bond markets benefited from a drop in yields in Europe, as well as the benign outlook for inflation. In Europe, government bonds were the biggest beneficiaries, whereas credit markets failed to match their returns. High yield bonds produced negative returns, but have showed good returns year-to-date.

Figure 2: European government bonds outperform credit

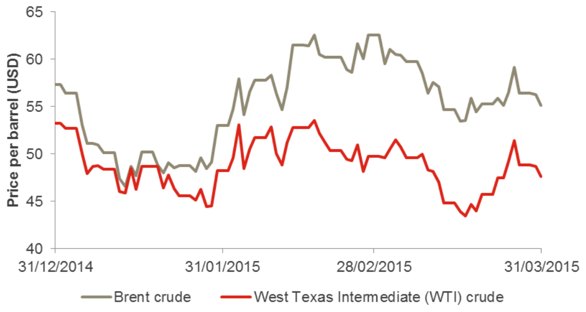


Emerging markets also saw divergent trends. Although Brazil stabilised somewhat in March, its economic and currency woes have seen the Bovespa equity index decline by 15.5% year-to-date. On the other hand Russian equities (despite falling by 7.6% in March) rallied by 16.5% year to date, following cuts to interest rates. Equities in China rallied by 14.6%, as its central bank moved to ease policy and indicated a willingness to introduce further measures.

Elsewhere, Greece continues to grab the headlines as it tries to negotiate a deal with its creditors and avoid default. Some compromise is likely, but a third debt renegotiation is ultimately inevitable if Greece is to remain in the euro and avoid an economic collapse. Either way, the systemic impact of such an event is now expected to be much lower than when the crisis first broke, as most banks and private sector institutions have reduced their exposure to minimal levels; most Greek debt is now held by governments well able to withstand a default.

Intervention by Saudi Arabia in Yemen raised the spectre of a wider sectarian conflict in the Middle East last month, while Iran and the West are moving to a negotiated deal on Iran’s nuclear programme, with serious cuts to the latter in return for phased reductions in sanctions. This would enable sizeable oil supplies from Iran, perhaps as much as 1.5-2.0 million barrels per day, to be returned to the market. The price of Brent crude oil fell by 11.9% over the month but has rallied significantly from the prices seen earlier in the year. Brent crude has risen to circa $55 per barrel, from a low of $46.6 in January.

Figure 3: Price of crude oil remains above January lows



Markets will remain dominated by central bank actions in the months ahead. In the US, slower growth in recent months and weak payroll numbers point to a first rise in rates in September at the very earliest, and the real possibility of no rise until 2016. At the same time the ECB and Bank of Japan will keep policy ultra-loose, and it is widely expected that the Bank of England will not raise rates till 2016. So the world remains awash with liquidity, keeping bond yields at exceptionally low (and highly unattractive) levels, and providing support for equities. While there are clear risks, none of these appear to be potentially damaging enough to result in a renewed bear market; there will be periods of consolidation but there are sound reasons for believing that this very long bull market and cycle has further still to run.

Source: Bloomberg. Returns in US dollars unless otherwise stated. March 2015.

2. Market performance

		To 31 March 2015		
Asset class/region	Index	Currency	Month	Year to date
Developed markets equities				
United States	S&P 500 NR	USD	-1.6%	0.8%
United Kingdom	MSCI UK NR	GBP	-2.0%	4.0%
Continental Europe	MSCI Europe ex UK NR	EUR	3.2%	18.9%
Japan	Topix TR	JPY	2.1%	10.5% [e]
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.3%	4.4%
Global	MSCI World NR	USD	-1.6%	2.3%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-3.6%	1.9%
Emerging Asia	MSCI EM Asia NR	USD	0.4%	5.2%
Emerging Latin America	MSCI EM Latin America NR	USD	-7.5%	-9.6%
BRICs	MSCI BRIC NR	USD	-1.9%	3.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.4%	2.2%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.7%	1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.5%	1.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3%	2.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.5%	2.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	2.1%	2.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.4%	3.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.2%	4.3%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.1%	1.4%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.1%	3.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	-0.5%
Australian Government	JP Morgan Australia GBI TR	AUD	1.0%	3.3%
Global Government Bonds	JP Morgan Global GBI	USD	-0.8%	-1.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-1.0%	-2.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.1%	0.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	0.6%	1.9%

Source: Bloomberg. e denotes estimate

		To 31 March 2015		
Asset class/region	Index	Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	USD	1.6%	4.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-2.1%	8.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.2%	5.5%
Global Property Securities	S&P Global Property USD TR	USD	0.0%	4.5%
Currencies				
Euro		USD	-4.2%	-11.3%
UK Pound Sterling		USD	-4.0%	-4.9%
Japanese Yen		USD	-0.5%	-0.4%
Australian Dollar		USD	-2.6%	-6.9%
South African Rand		USD	-3.9%	-4.7%
Commodities & Alternatives				
Commodities	RICI TR	USD	-5.5%	-7.2%
Agricultural Commodities	RICI Agriculture TR	USD	-3.8%	-8.0%
Oil	Brent Crude Oil	USD	-11.9%	-3.9%
Gold	Gold Spot	USD	-2.4%	-0.1%
Hedge funds	HFRX Global Hedge Fund	USD	0.5% e	2.2% e
Interest rates		**Current rate**		
United States		0.25%		
United Kingdom		0.50%		
Eurozone		0.05%		
Japan		0.10%		
Australia		2.25%		
South Africa		5.75%		

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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