momentum

Viewpoint

Monthly market update

September 2015

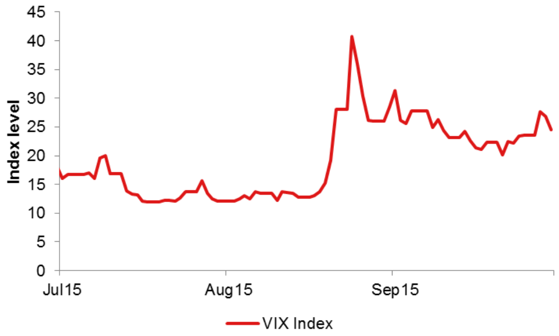
global investment management

Contents

1. Market commentary

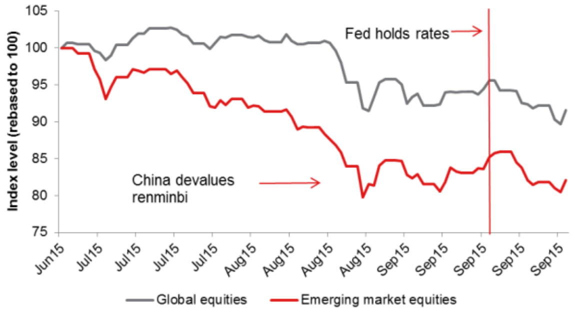
The sharp market falls and increased volatility seen in August continued through September and resulted in the weakest quarter for equities since the euro crisis of 2011. Global equities fell by 3.7% in September to take the return for the quarter to -8.4%. Emerging markets (EM) performed much in line with developed markets and were down by 3.0%, but significantly underperformed their developed counterparts over the quarter, down by 17.9% to take the falls in EM since this year's peak in April to 24.6%.

Figure 1: The VIX index of implied volatility – the "Wall Street Fear Gauge"



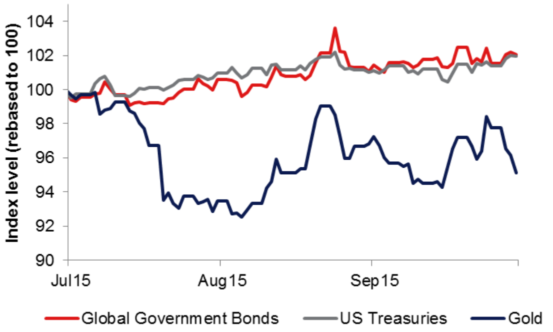
The overriding factor behind these moves has been clear evidence of slowing global growth, especially in emerging markets, which have been at the epicentre of this latest bout of market jitters. Emerging markets have faced the near perfect storm of sluggish global growth, the challenges of reining in a credit boom, excessive dollar debt exacerbated by a strong dollar, inadequate structural reforms during the boom years, domestic policy mistakes on a grand scale (notably in Brazil), and the slowdown in China and related collapse in commodity prices.

Figure 2: Global and emerging market equity performance



China's modest devaluation of the renminbi was the trigger for the big selloff in August; perversely, in September it was the US Federal Reserve's (Fed's) decision to keep interest rates on hold that caused the further leg down. While on the surface the continuation of near zero interest rates should be positive for markets, it was the Fed's reasons for deferring a rate increase that caused further alarm among investors. By citing concerns about global growth, particularly in China, the Fed seemed to confirm investors' worst fears that growth is stalling and that the risks of a recession are increasing. Moreover, during the sharp falls in equity markets of recent months there have been few safe-havens for investors. Gold has disappointed, slipping by 5% over the quarter and many parts of the fixed income markets suffered from rising credit spreads as falling growth fears raised the spectre of defaults. However, government bonds across the developed world proved their worth as 'safe-haven assets' and – in the face of rising deflationary concerns –returned close to 1% in September and 2% over the quarter.

Figure 3: 'Safe-haven' asset class returns



It is important to keep these macroeconomic themes in perspective, however. China is on a path to structurally slower growth, but its consumer sector is strong and becoming more important both in China and globally. The economy is rebalancing rather than grinding to a halt and this will ultimately be a positive development which will create big opportunities for many countries and companies. The collapse in commodity markets causes some dislocation in the early stages of the down-cycle and cutbacks to capital spending in important parts of the global economy, but these negative effects should be offset by the positive impact of lower prices to users. A boost to real incomes and to spending will keep inflation at very low levels for some time ahead, which in turn enables central banks to maintain very loose monetary policy and continue with their stimulus efforts, without risking inflation. It is now unlikely that the Fed will raise rates this year, and it could be late into next year or even beyond that before the first rate hike finally comes.

There are clearly significant imbalances across the world, and a high level of uncertainty, not least around the ultimate end-game of this long period of extraordinary monetary policy. Volatility will also remain at high levels, but for longer term investors this creates opportunities to add to investments at attractive levels and we have been using the falls in recent weeks to add to our risk positions in portfolios, especially in equity markets. As we enter the final quarter of the year there are attractive opportunities at much improved valuation levels across many markets and we anticipate much improved returns after a difficult period for investors. Indeed, in the first week of October there has been a sharp reversal of the trends of the past few months.

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

2. Market performance

Asset class/region	Index	To 30 September 2015 Currency	Month	Year to date
Developed markets equities				
United States	S&P 500 NR	USD	-2.5%	-5.7%
United Kingdom	MSCI UK NR	GBP	-3.0%	-5.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.4%	4.3%
Japan	Topix TR	JPY	-7.5%	2.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.3%	-13.8%
Global	MSCI World NR	USD	-3.7%	-6.0%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-4.4%	-10.1%
Emerging Asia	MSCI EM Asia NR	USD	-1.5%	-12.8%
Emerging Latin America	MSCI EM Latin America NR	USD	-7.7%	-29.1%
BRICs	MSCI BRIC NR	USD	-3.2%	-14.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-3.0%	-15.5%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9%	1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.7%	-1.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.7%	-0.1%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-2.6%	-2.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.3%	2.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	0.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.0%	1.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.7%	-1.8%
Euro High Yield	Barclays European HY 3% Issuer Constraint Total Return Index Value	EUR	-2.1%	-0.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.4%	0.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.4%	3.0%
Global Government Bonds	JP Morgan Global GBI	USD	0.9%	-1.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.5%	-2.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.3%	-2.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.1%	0.1%

Source: Bloomberg. e denotes estimate

Asset class/region	Index	To 30 September 2015 Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	USD	2.9%	-5.1%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-0.3%	4.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-0.8%	-1.7%
Global Property Securities	S&P Global Property USD TR	USD	0.8%	-4.5%
Currencies				
Euro		USD	-0.3%	-7.6%
UK Pound Sterling		USD	-1.4%	-2.9%
Japanese Yen		USD	1.1%	-0.2%
Australian Dollar		USD	-1.3%	-14.1%
South African Rand		USD	-4.2%	-16.5%
Commodities & Alternatives				
Commodities	RICI TR	USD	-4.5%	-16.8%
Agricultural Commodities	RICI Agriculture TR	USD	0.3%	-13.0%
Oil	Brent Crude	USD	-10.7%	-15.6%
Gold	Gold Spot	USD	-1.7%	-5.9%
Hedge funds	HFRX Global Hedge Fund	USD	-2.1%	-3.0%
Interest rate			**Current rate**	
United States			0.25%	
United Kingdom			0.50%	
Eurozone			0.05%	
Japan			0.10%	
Australia			2.00%	
South Africa			6.00%	

Source: Bloomberg. e denotes estimate

3. Asset allocation dashboard

Positive	Neutral	Negative

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

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