momentum

Viewpoint

Monthly market update

November 2014

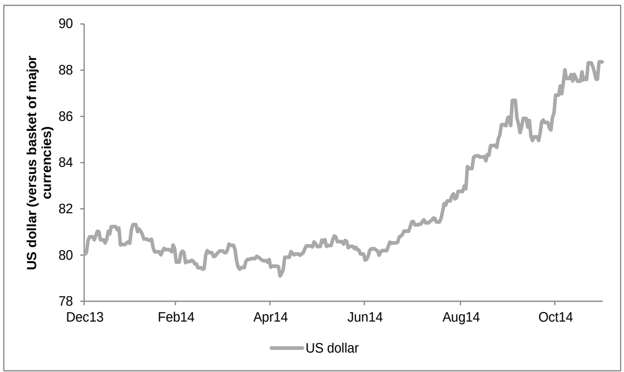
global investment management

Contents

1. Market commentary

November proved to be another reasonable month for global equity markets, with returns of 2.0% for the MSCI World. In fact, it was another month where both equity and bond markets added value, in local currency terms at least, while the US dollar continued to strengthen. The US equity market remains the stand out performer year-to-date, as the S&P 500 continued to close at record highs over the month, despite being weighed upon by the energy sector, which is under pressure from falling oil prices. Global emerging markets equity underperformed, generating a negative return for the month. Year-to-date, the region has also underwhelmed, returning 2.5% compared to 6.7% for developed markets.

Figure 1: US dollar strength

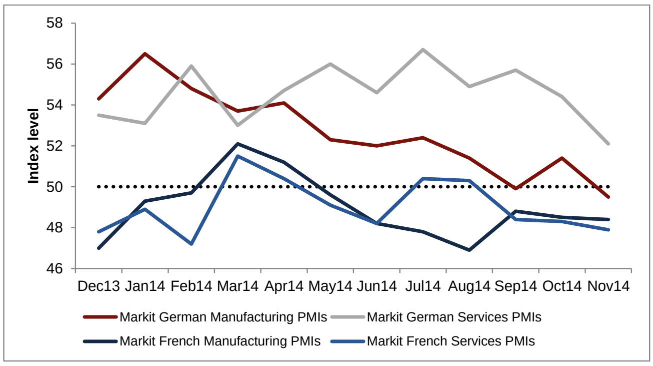


Bond markets also had a positive month as yields pulled in once more. Global government bonds fell by 0.5% in US dollar terms last month, due to the strength of the USD reporting currency, but the main components ended the period in positive territory when expressed in local currency terms. The high quality end of the credit spectrum performed reasonably well, while the lower end was somewhat more mixed. Global convertible bonds added 0.8%, while US high yield bonds fell by 0.7%.

Oil proved to be the main source of headlines for the month, with Brent crude falling by 18.3%. As global activity slows in a number of key economic areas, including Europe and China, the price of the commodity is coming under pressure. Supply dynamics are also having a significant effect, as the shale revolution in the US has resulted in a significant increase in supply levels. Moreover, the Organisation for Petroleum Exporting Countries (OPEC), decided not to cut production at their November summit.

In Europe, German and French activity levels have been lacklustre, whilst Europe's periphery economies are improving modestly. German manufacturing continues to grow in low single digits but remains under market expectations; France's manufacturing activity is not growing at all. Italy's economy continued to shrink, with quarter-on-quarter GDP falling by 0.1%. Deflation continues to be a concern in the common currency bloc, with the German Consumer Price Index (CPI) registering -0.3% month-on-month. Against this backdrop Mario Draghi, President of the European Central Bank, proceeded to state in a dovish speech, that in terms of monetary policy, all options remain firmly on the table. The German 10-year Bund yield dropped slightly below 0.7% for the first time, while the equivalent French 10-year government bond fell below 1.0% to also reach a record low.

Figure 2: Falling European Purchasing Managers' Indices (<50 indicates contraction)



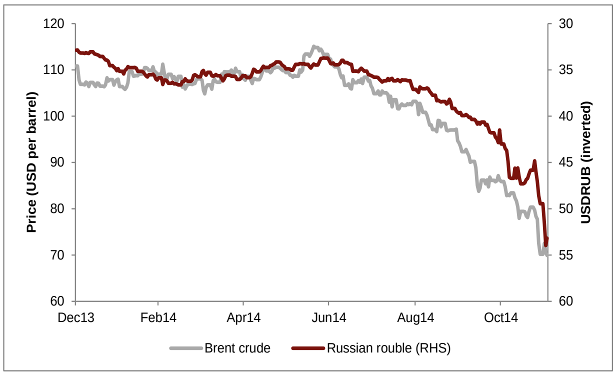
The Bank of Japan surprised investors by announcing that it will increase the scale of its Quantitative Easing programme from its current level of JPY 60-70 trillion a year to JPY 80 trillion (circa USD 710 billion). The announcement came hours after the USD 1.2 trillion Japanese Government Pension Investment Fund announced that it will double its holdings of domestic equities to take the total equity exposure of the fund to 50% (split evenly between Japanese and international holdings). Both measures should, on balance, provide impetus to the domestic equity market.

Japanese Prime Minister, Shinzo Abe, called a snap election at the end of November. With the opposition parties weak, Mr Abe is seeking a new four-year term to push forward with his far-reaching economic reforms, often termed 'Abenomics'. He has also postponed a second planned consumer tax hike. Despite Mr Abe's bold stimulus measures, the first consumer tax increase in April has done more damage to the Japanese economy than was anticipated, with the economy in a technical recession following two consecutive quarters of negative GDP growth.

Elsewhere in Asia, the People's Bank of China also moved to address concerns about a domestic slowdown, by cutting its benchmark interest rate for the first time in two years. The unexpected move took the interest rate down by 0.25% to 2.75%. The bank also cut its lending rate from 6.00% to 5.60%. According to HSBC, Chinese manufacturing PMIs have hit a six month low, reading 50.0 in November, and the official Purchasing Managers' Index fell to an eight-month low of 50.3 in November, compared with forecasts of 50.5.

In Russia, there was no respite for the rouble this month as Western sanctions and the falling price of oil continue to weigh on the currency. The rouble has experienced its most severe decline against the US dollar since 1998, when the country defaulted on its internal debt. The moves also coincided with Russia downgrading its GDP forecast for 2015; a previously forecasted growth rate of 1.2% was revised to a 0.8% expected contraction.

Figure 3: Depreciation of the Russian rouble coincides with fall in Brent



While Japan and Europe's economies remain in a difficult position, the US economy is largely on an even keel. The labour market continues to improve, and the economy is growing at what is now a reasonable pace. Nevertheless early in the month the Fed reiterated that it would allow "considerable time" to pass before it starts to raise interest rates. In a world where inflation is universally low and one major component of inflation baskets, namely energy, is continuing to fall, there seems little need to follow a hawkish interest rate policy at the present time. Furthermore, a fall in energy prices such as this should relieve pressure on embattled consumers and can be viewed as akin to a tax cut, which should bode well for consumption.

Source: Bloomberg. Returns in US dollars unless otherwise stated. November 2014.

2. Market performance

Asset class/region	Index	To 28 November 2014		
		Currency	Month	Year to date
Developed markets equities				
United States	S&P 500 NR	USD	2.6%	13.3%
United Kingdom	MSCI UK NR	GBP	2.9%	2.8%
Continental Europe	MSCI Europe ex UK NR	EUR	4.1%	8.8%
Japan	Topix TR	JPY	5.8%	10.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.3%	5.1%
Global	MSCI World NR	USD	2.0%	6.7%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-4.2%	-17.0%
Emerging Asia	MSCI EM Asia NR	USD	0.2%	6.9%
Emerging Latin America	MSCI EM Latin America NR	USD	-4.6%	-3.5%
BRICs	MSCI BRIC NR	USD	-1.3%	2.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.1%	2.5%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9%	5.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.3%	5.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.6%	7.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.7%	4.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	3.2%	12.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	2.3%	11.0%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.4%	12.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.6%	7.8%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.5%	-4.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.7%	3.5%
Australian Government	JP Morgan Australia GBI TR	AUD	1.6%	9.2%
Global Government Bonds	JP Morgan Global GBI	USD	-0.5%	1.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.2%	1.5%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.8%	0.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-0.5%	8.8%

Source: Bloomberg. e denotes estimate

		To 28 November 2014		
Asset class/region	Index	Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	USD	1.9%	26.6%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-0.1%	17.0%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-1.0%	1.5%
Global Property Securities	S&P Global Property USD TR	USD	1.1%	14.0%
Currencies				
Euro		USD	-0.6%	-9.4%
UK Pound Sterling		USD	-2.2%	-5.5%
Japanese Yen		USD	-5.6%	-11.6%
Australian Dollar		USD	-3.3%	-4.6%
South African Rand		USD	-0.2%	-5.1%
Commodities & Alternatives				
Commodities	RICI TR	USD	-6.5%	-14.8%
Agricultural Commodities	RICI Agriculture TR	USD	-0.5%	-6.4%
Oil	Brent Crude	USD	-18.3%	-36.7%
Gold	Gold Spot	USD	-0.5%	-3.2%
Hedge funds	HFRX Global Hedge Fund	USD	0.3%	0.2%
Interest rate			**Current rate**	**Change at meeting**
United States	10 December 2014	USD	0.25%	-
United Kingdom	10 December 2014	GBP	0.50%	-
Eurozone	10 December 2014	EUR	0.05%	-
Japan	04 April 2013	JPY	0.10%	-
Australia	02 December 2014	AUD	2.50%	-
South Africa	10 December 2014	ZAR	5.75%	-

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	Positive
Fixed Income	
Government	Negative
Index-linked (relative to government)	Negative
Investment grade (relative to government)	Neutral
High yield	Neutral
Loans	Positive
Emerging market debt	Positive
Convertible bonds	Neutral
Alternatives	
Commodities	Neutral
Property (UK)	Neutral
Currencies	
GBP	Neutral
Euro	Neutral
Yen	Negative

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