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Newsflash

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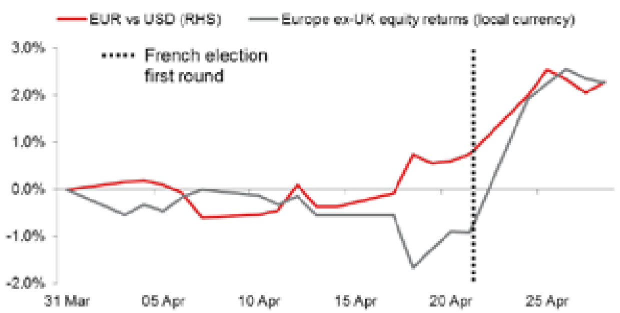
Market Commentary

In another good month for risk assets generally the pattern of performance and market leadership has shifted significantly. Following Donald Trump's election victory in November the US equity market led the world up sharply, with the 'reflation trade' accounting for much of the rise. However growing evidence that winning Congressional approval for big policy initiatives such as tax cuts and reforms, and huge spending on infrastructure will be very difficult has meant the US market has stalled. Although the S&P 500 returned 1.0% in April it has traded sideways for two months. At the same time the USD has weakened against all major currencies on a trade weighted basis.

The good performance of equity markets generally: MSCI World +1.5% in April, +9.1% YTD (year-to-date), MSCI Global Emerging Markets +2.2% in April, +13.9% YTD, has been driven by continuing evidence of improving global growth, the first synchronised acceleration in growth since the financial crisis. This has driven corporate earnings sharply higher, with EPS (earnings per share) up by well over 10% over the first quarter in the US and by over 15% in Europe. Perhaps most encouraging has been the pick-up in Europe, with Euro area GDP growth of 0.5% in Q1 (annualised 1.8%) well ahead of that in the US (0.7% annualised). With the worst political fears in the EU beginning to dissipate following the failure of the anti EU party in the Netherlands to breakthrough in the general election in March followed by Marine Le Pen's National Front failing to win the Presidential race in France, the euro has moved higher, up 2.3% in April and 3.6% YTD. European equity markets were also the best performing developed markets in April, up 2.2% in EUR terms, and YTD have now returned 9.3% in EUR terms and 13.0% in USD terms, well ahead of US equities at 7.0% YTD.

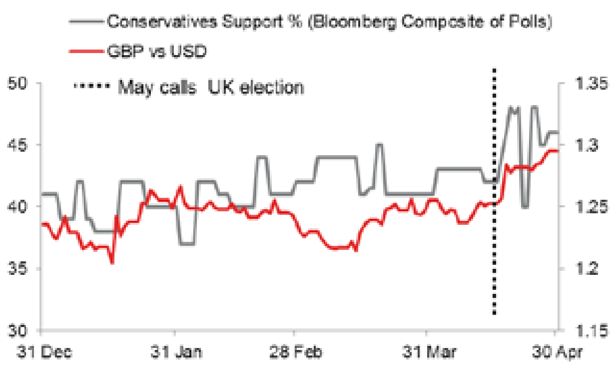
Figure 1: Macron win boosts European assets



Perhaps more surprising in April, given stronger growth and rising headline inflation, has been the positive returns from most bond markets, including sovereign debt across the developed world. US Treasuries returned 0.7% in April, with yields falling back by 30 basis points from levels reached earlier in the year. In part this has been due to the stalling of inflationary expectations and in part to signs of slower growth in the US this year, evidenced by the slightly disappointing first quarter GDP growth figure and leading indicators, while still pointing to expansion, trending lower in recent weeks. It is notable, however, that the US Federal Reserve (Fed) regards this growth deceleration as transitory and remains on course for two more rate rises this year, the next one most likely in June. In what has remained a 'risk on' environment credit has continued to outperform safe haven government bonds, with high yield bonds up 1.2% in April, 3.9% YTD and Emerging Market debt up 2.2% in April and 6% YTD after benefitting somewhat from the weaker US dollar.

The investment world's bearish consensus view of sterling has been confounded this year; GBP is the strongest major currency so far in 2017, up 3.2% in April and 4.8% YTD. The catalyst for sterling's sharp rise in April was Prime Minister Theresa May's call for a general election on June 8th. There is no doubt that her Conservative party will win a much bigger majority than they have currently, given the fragile state of the opposition, who's leader, Jeremy Corbyn, seems to lack political legitimacy in the minds of many voters. The expectation is that a larger majority will strengthen Ms May's hand in negotiations with the EU. Furthermore the lack of a need to win an election in 2020, within a year of formal Brexit, gives her much greater room for manoeuvre around a transition deal.

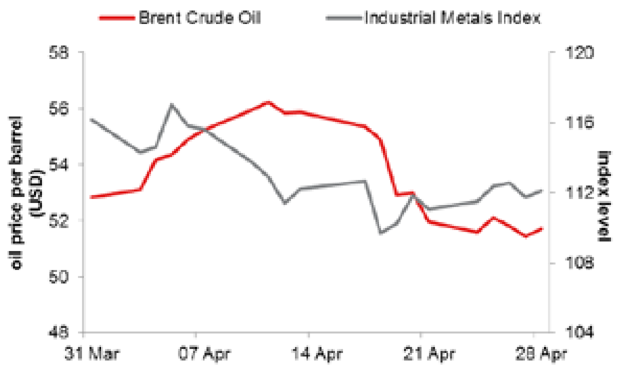
Figure 2: Sterling strong YTD as Conservatives support rises



The other important and notable move in April was the further fall in the oil price, down by 2.1% in the month and 9% YTD, taking it back close to the levels before the OPEC production cuts were announced in November last year. OPEC's cuts have failed so far to dent the very high levels of inventories, whereas the rise in the oil price from last year's lows has led to a renewed surge in shale production in the US, where production costs have been brought down dramatically in response to the earlier collapse in prices. Without further OPEC production cuts or an extension of the current programme of cuts, it will be very difficult for the oil price to break out of its current range, and this will provide support both to relatively low levels of global inflation and to economic growth.

Despite stronger global growth, commodity markets were generally under pressure in April, with industrial metals prices falling significantly. Supply factors had some impact but of most importance has been the tightening of credit policy in the world's largest consumer of industrial metals, China. First quarter growth in the Chinese economy came in at 6.9%, spurred on by credit growth, but the authorities are now trying to rein in excess credit and its impact on the property market.

Figure 3: Oil & metals falter in April



Markets have performed well this year on the back of higher global growth. However, valuations have been pushed higher, especially in the US, and are becoming vulnerable to disappointments, notably in the US if President Trump's reflationary policies are delayed or not implemented to the extent expected. Policy uncertainties remain high and geopolitical risks, notably in North Korea and Syria, are tail risks which could cause investors to become more cautious. This leaves markets susceptible to a correction and the long period of subdued volatility we have enjoyed over the past few months will surely be tested before too long.

However, with this cycle becoming particularly extended it will be important to stay invested, anything less is likely to lead to disappointment, with scarce sources of capital protection and regular income outside of capital markets as deposit rates remain disappointingly low. Opportunities for returns outweigh the risks and we expect equities to continue to outperform bonds through 2017, so periodic bouts of weakness in equity markets will present buying opportunities.

Source: Bloomberg. Returns in US dollars unless otherwise stated. January 2017.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 April 2017		
		Currency	1 Month	Year to date
Developed markets equities				
United States	S&P 500 NR	**USD**	1.0%	7.0%
United Kingdom	MSCI UK NR	**GBP**	-1.3%	2.4%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.2%	9.3%
Japan	Topix TR	**JPY**	1.3%	1.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	1.6%	14.6%
Global	MSCI World NR	**USD**	1.5%	8.0%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	4.4%	5.9%
Emerging Asia	MSCI EM Asia NR	**USD**	2.1%	15.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	0.0%	12.1%
BRICs	MSCI BRIC NR	**USD**	1.9%	13.7%
Global Emerging Markets	MSCI EM (Emerging Markets) NR	**USD**	2.2%	13.9%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.7%	1.4%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.6%	2.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	1.1%	2.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	1.2%	3.9%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.2%	1.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.5%	2.4%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.5%	-1.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.5%	0.8%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	1.1%	3.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.6%	0.1%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.9%	2.2%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.3%	2.7%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.3%	2.6%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	1.5%	5.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	2.2%	6.0%

Source: Bloomberg *[e] denotes estimate*

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 28 April 2017		
		Currency	1 Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	**USD**	0.1%	0.8%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	2.6%	1.4%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	2.3%	11.7%
Global Property Securities	S&P Global Property USD TR	**USD**	1.4%	5.1%
Currencies				
Euro		**USD**	2.3%	3.6%
UK Pound Sterling		**USD**	3.2%	4.8%
Japanese Yen		**USD**	-0.1%	4.9%
Australian Dollar		**USD**	-1.8%	4.0%
South African Rand		**USD**	0.4%	2.4%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	-2.3%	-4.0%
Agricultural Commodities	RICI Agriculture TR	**USD**	-1.0%	-1.3%
Oil	Brent Crude Oil	**USD**	-2.1%	-9.0%
Gold	Gold Spot	**USD**	1.5%	10.1%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.4%	2.1%
Interest rates				
United States			1.00%	
United Kingdom			0.25%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			7.00%	

Source: Bloomberg *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 28 April 2017		
		Currency	1 Month	Year to date
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	-1.3%	2.4%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	-2.3%	1.1%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	1.7%	6.1%
UK - Small Cap	MSCI Small Cap NR	**GBP**	4.4%	9.7%
United States	S&P 500 NR	**USD**	-2.2%	2.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.9%	7.7%
Japan	Topix TR	**JPY**	-2.0%	1.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.6%	9.2%
Global developed markets	MSCI World NR	**GBP**	-1.7%	2.9%
Global emerging markets	MSCI EM (Emerging Markets) NR	**GBP**	-1.0%	8.6%
Bonds				
Gilts - All	BofA Merrill Lynch Gilts TR	**GBP**	0.2%	1.9%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	**GBP**	0.1%	0.3%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	**GBP**	0.4%	1.9%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	**GBP**	0.2%	2.8%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	**GBP**	2.5%	4.4%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	**GBP**	0.8%	1.7%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	**GBP**	3.2%	5.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.5%	2.4%
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-2.5%	-3.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-2.1%	-2.5%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-2.0%	-1.0%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.8%	-2.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.8%	-0.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-0.2%	1.5%
Global Government Bonds	JP Morgan Global GBI	**GBP**	-1.9%	-2.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**GBP**	-1.9%	-2.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**GBP**	-1.7%	0.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	-1.1%	1.1%

Source: Bloomberg *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 28 April 2017		
		Currency	1 Month	Year to date
Property				
UK Direct Property	UK IPD All Property TR	**GBP**	0.0% [e]	2.3% [e]
Global Property Securities	S&P Global Property USD TR	**GBP**	-1.8%	0.2%
Currencies				
Euro		**GBP**	-0.8%	-1.4%
US Dollar		**GBP**	-3.1%	-4.7%
Japanese Yen		**GBP**	-3.2%	0.0%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	-5.4%	-8.5%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-4.1%	-5.9%
Oil	Brent Crude Oil	**GBP**	-5.2%	-13.2%
Gold	Gold Spot	**GBP**	-1.7%	4.9%
Interest rates				
United Kingdom			0.25%	
United States			1.00%	
Eurozone			0.00%	
Japan			0.10%	

Source: Bloomberg [e] *estimate*

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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