

# Viewpoint

## Monthly market update

*February 2018*



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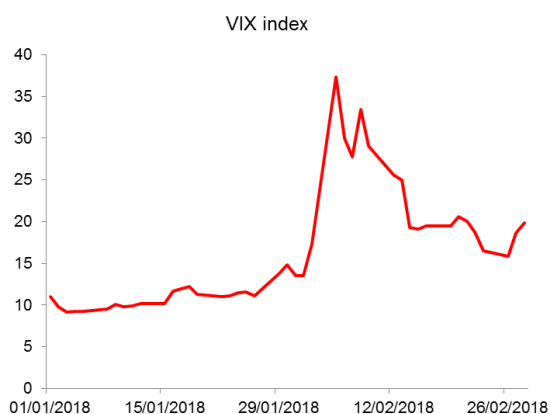
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# 1. Market commentary

Financial markets had a turbulent and more volatile month in February, with almost every asset class falling while the US Dollar rose on a trade weighted basis. Notably, after a record streak of fifteen consecutive monthly gains, the S&P 500 fell 3.7% in February. After a particularly strong January, global emerging market equities underperformed developed markets, although emerging market equities continue to outperform developed markets year to date. Global bonds suffered with yields generally rising amidst a better than expected jobs report in the US.

US markets fell sharply early in the month, with the S&P 500 falling 6.2% in the first three days of trading. This followed a strong jobs report, with wage growth beating expectations at 2.9%. With the tightness in the labour market yet to feed into wage growth and subsequently headline inflation, investors have been focusing on wage growth figures in anticipation of the trend reversing. The better than expected data indicated this may finally be the case and investors adjusted their inflation expectations and subsequently their forecast for the timing of future US rate hikes. This initially put bond markets under pressure, before concerns spread to equity markets.

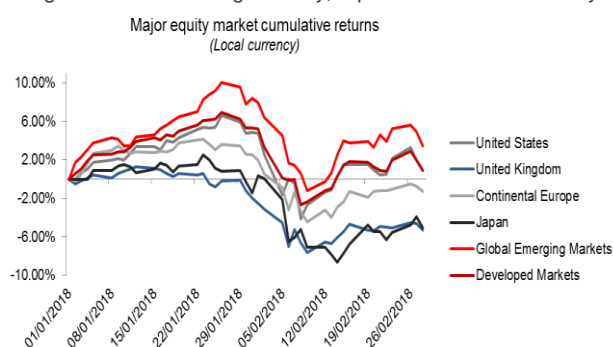
Figure 1: As typically measured by the VIX index, US equity market volatility spiked early in the month



Source: Bloomberg, Momentum GIM

The sell-off and increased volatility in US markets spread to global markets, with developed market equities falling 4.1% and emerging market equities falling 4.6% amidst a headwind of US Dollar strength. Of the major regions in developed markets, Asian Pacific equities performed the worst, falling 4.7% in local currency terms while the best performing region, the UK, still fell 3.4%.

Figure 2: After a strong January, equities decline in February



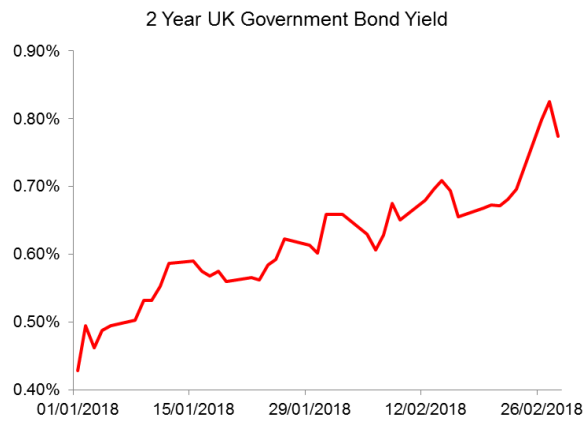
Source: Bloomberg, Momentum GIM

Globally, bond yields generally rose amidst concerns about rising inflation. Investment grade corporate bonds underperformed high-yield, although across sub-asset classes, euro investment grade credit proved most resilient, remaining at the same level. US treasury yields continued to climb, particularly following the strong jobs report which suggested rises in growth and inflation were likely. Treasuries mirrored the volatility of equity markets, with 10 year yields reaching 2.95% intra-month before retreating and ending the month up 15.6 basis points to 2.86%. US corporate bonds underperformed during the month, falling 1.6% versus a 0.8% fall in treasuries. In the UK, two year gilt yields rose 11.5 basis points to 0.774%, this followed comments made by Bank of England Governor Mark Carney which suggested rates were likely to rise sooner and more aggressively than previously anticipated.

In currencies, the US Dollar strengthened during the month rising 1.7% on a trade weighted basis. This was partly driven by investors anticipating a faster rate hike cycle which has been fuelled by inflation concerns and comments by new Federal Reserve chair Jerome Powell. The euro suffered its first

monthly fall versus the US Dollar since November, declining 1.8%, while Sterling also fell, declining 3.0%.

Figure 3: 2 year UK gilt yields continue to rise



Source: Bloomberg, Momentum GIM

In commodities, Brent crude oil reversed the gains it made in January, falling 4.7% in February to USD 65.8/bbl. This was driven by the rise in the US Dollar and pressure from increasing oil production. US Dollar strength also hit precious metals, with gold down 2.0% to 1318.4 per troy ounce.

During the month, the four major central banks kept their monetary policies unchanged, although there was a notable shift in central bank rhetoric with the both the Bank of England and the Federal Reserve indicating rates were likely to rise sooner and more aggressively than previously anticipated.

In the short to medium term it will be particularly important to monitor movements in US treasury yields, which have risen rapidly in the past six months. A more rapid rise in yields in the short term could undermine equity markets and cause a more significant period of consolidation, although we would view such a move as an opportunity to add equity risk to our portfolios. Despite the setback in markets, we are firmly of the view that this cycle has further to run and we see this short-term setback as a healthy correction. We do not see evidence of overheating or a premature downturn and believe opportunities for returns outweigh the risks; hence it is important to stay invested.

Source: Bloomberg. Returns in US dollars unless otherwise stated. February 2018.

**Past performance is not indicative of future returns.**

## 2. Market performance – Global (local returns)

		To 28 February 2018 (local returns)		
Asset class/region	Index	Local currency	1 month	3 months
<b>Developed markets equities</b>				
United States	S&P 500 NR	USD	-3.7%	2.8%
United Kingdom	MSCI UK NR	GBP	-3.4%	-0.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.7%	-1.7%
Japan	Topix TR	JPY	-3.7%	-1.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.7%	4.8%
Global	MSCI World NR	USD	-4.1%	2.3%
<b>Emerging markets equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	-2.7%	12.8%
Emerging Asia	MSCI EM Asia NR	USD	-5.4%	5.1%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.6%	13.9%
BRICs	MSCI BRIC NR	USD	-5.3%	8.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-4.6%	7.0%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.8%	-1.9%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.1%	-1.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.6%	-1.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.8%	0.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.3%	-0.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.9%	-0.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2%	-1.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	-0.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.7%	-0.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.4%	0.4%
Australian Government	JP Morgan Australia GBI TR	AUD	0.3%	-1.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.7%	0.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-1.0%	0.4%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.3%	1.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-2.2%	-2.1%

Source: Bloomberg.

**Past performance is not indicative of future returns.**

		To 28 February 2018 (local returns)		
Asset class/region	Index	Local currency	1 month	3 months
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	-7.8%	-12.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-4.1%	-8.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-6.7%	2.5%
Global Property Securities	S&P Global Property USD TR	USD	-6.7%	-3.9%
<b>Currencies</b>				
Euro		USD	-1.8%	2.4%
UK Pound Sterling		USD	-3.0%	1.7%
Japanese Yen		USD	2.3%	5.5%
Australian Dollar		USD	-3.6%	2.6%
South African Rand		USD	0.4%	16.2%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	-1.7%	4.7%
Agricultural Commodities	RICI Agriculture TR	USD	3.4%	4.9%
Oil	Brent Crude Oil	USD	-4.7%	3.5%
Gold	Gold Spot	USD	-2.0%	3.4%
Hedge funds	HFRX Global Hedge Fund	USD	-2.4%	0.7%
<b>Interest rates</b>		<b>Current rate</b>		
United States			1.50%	
United Kingdom			0.50%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.75%	

Source: Bloomberg.

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### 3. Market performance – UK (all returns in GBP)

		To 28 February 2018 (all returns in GBP)		
Asset class/region	Index	Local currency	1 month	3 months
<b>Equities</b>				
UK - All Cap	MSCI UK NR	GBP	-3.4%	-0.5%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-3.7%	-0.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-2.5%	-0.1%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.0%	-0.2%
United States	S&P 500 NR	USD	-1.0%	0.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.5%	-1.1%
Japan	Topix TR	JPY	1.5%	2.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.0%	2.7%
Global developed markets	MSCI World NR	GBP	-1.4%	0.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	-1.9%	4.9%
<b>Bonds</b>				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	0.3%	-0.4%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	0.0%	-0.3%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	-0.1%	-1.0%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	0.6%	0.0%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	0.3%	-0.4%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	0.0%	-0.7%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	0.5%	-0.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.9%	-0.4%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	2.1%	-3.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.2%	-3.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	2.0%	-2.0%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.4%	-0.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.2%	0.0%
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Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	1.9%	-1.7%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	1.6%	-0.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.6%	-4.1%

Source: Bloomberg.

**Past performance is not indicative of future returns.**

		To 28 February 2018 (all returns in GBP)		
Asset class/region	Index	Local currency	1 month	3 months
<b>Property</b>				
Global Property Securities	S&P Global Property USD TR	GBP	-4.0%	-5.8%
<b>Currencies</b>				
Euro		GBP	1.3%	0.7%
US Dollar		GBP	3.2%	-1.7%
Japanese Yen		GBP	5.6%	3.7%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	GBP	1.2%	2.6%
Agricultural Commodities	RICI Agriculture TR	GBP	6.4%	2.8%
Oil	Brent Crude Oil	GBP	-2.0%	1.4%
Gold	Gold Spot	GBP	0.8%	1.3%
<b>Interest rates</b>		<b>Current rate</b>		
United Kingdom			0.50%	
United States			1.50%	
Eurozone			0.00%	
Japan			0.10%	

Source: Bloomberg.

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## 4. Asset allocation dashboard

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