BROADSTONE

FOR PROFESSIONAL INVESTORS ONLY

MARKET PULSE

31 JANUARY 2016

www.broadstone.co.uk

MARKET COMMENTARY – 31 JANUARY 2016

Investors fled risk assets including equities corporate bonds and commodities amid continuing concerns over the slowdown in China and the significant fall in oil prices which reflect a greater probability of a global recession. The MSCI World index fell 2.3% over the month in Sterling terms as the currency weakened against other major currencies.

The S&P500 ended the month 1.3% lower as US stocks experienced a third quarter of earnings declines. The US economy grew at an annual rate of 0.7% over the fourth quarter, compared to 3% over the previous quarter, underlying the loss of momentum in the economy as exports dropped 2.5%, manufacturing activity contracted and investment fell in response to the fall in crude oil price. Interest rate futures suggest that the Federal Reserve will hold back on further interest rate rises until September 2016.

Concerns about a possible global slowdown and deflationary pressures prompted the Bank of Japan to cut interest rates to -0.1%. Bond yields are now negative out to 8 years. Despite a strong positive reaction in equity markets, the FTSE Japan index fell 4.7% over the month. Equities in the rest of the Asia Pacific region were down 4.3% as trade has slowed. South Korean exports to China fell 6%, and 11% or more to other Southeast Asian nations, the Middle East and Latin America. In Europe, the French economy grew 1.1% in 2015 and Spain grew 3.2%. However, lackluster growth in wages and rising concerns over weak inflation has resulted in the ECB hinting at more stimulus for the Eurozone economy in March. Despite a brief rally following these comments, the FTSE Europe index was down 2.9% over the month.

In the UK, the possibility of an exit from the EU has weighed on investor sentiment and prompted Bank of England Governor Mark Carney to warn of financial instability, higher interest rates and capital flight if Britain were to leave the EU. The FTSE All Share Index fell 3.1% over the month. UK interest rates are unlikely to rise this year due to expected weaker inflation and growth forecasts.

Investors have flooded government debt with $6.5trn representing approximately a quarter of all government debt invested in negative yielding bonds. 20 year gilt yields fell to 2.39% at the end of January – the lowest since January 2015. Market expectations have priced in a rise in the 20 year gilt yield to 2.96% over the next five years, compared to 3.25% at the end of December 2015. Corporate Bond spreads have increased, reflecting concerns over the economic slowdown. Sterling spreads increased to 1.84% at the end of January 2016 and High Yield bond yields increased to 8.91%.

Savilles expect UK commercial property investors to focus on income returns and refurbishment and development. They predict that average total return will slip to 7.5% in 2016 and that investor demand will remain strong, although slightly lower than in recent years, but well ahead of the long-term average.

MARKET PULSE

INDEX	1m %	3m %	6m %	1yr %	3yr p.a. %	5yr p.a. %	One Year Analysis: Volatility* %	Sharpe Ratio*	Positive Months
FTSE ALL SHARE	-3.1	-3.8	-7.2	-4.6	4.0	5.5	12.1	0.0	6
MSCI WORLD	-2.3	0.2	-1.6	1.1	10.2	9.0	11.8	0.1	7
S&P 500	-1.3	2.1	2.6	5.2	15.5	13.6	11.7	0.4	7
MSCI EMERGING MARKETS	-2.8	-4.3	-8.5	-16.0	-5.5	-2.9	13.9	0.0	4
FTSE EUROPE	-2.9	-2.7	-6.5	-3.1	4.0	4.2	12.3	0.0	7
FTSE JAPAN	-4.7	-0.6	-2.6	5.3	10.6	5.8	15.0	0.3	7
FTSE ASIA PACIFIC EX JAPAN	-4.3	-1.6	-5.9	-12.4	-0.7	1.4	15.0	0.0	6
FTSE CHINA INDEX	-9.5	-8.7	-12.2	-15.0	-0.6	1.1	27.0	0.0	5
IPD UK ALL PROPERTY INDEX**	1.2	3.1	6.6	13.8	14.6	10.7	0.6	14.9	12
iBoxx STG CORP	0.7	1.5	0.4	-3.6	5.4	7.2	5.4	0.0	6
iBoxx STG CORP AAA	1.6	2.2	1.4	-2.8	5.3	6.8	6.1	0.0	6
iBoxx STG CORP AA	3.9	4.8	4.1	-2.8	8.2	7.7	10.2	0.0	6
iBoxx STG CORP BBB	0.3	1.0	-0.1	-3.1	5.4	7.9	4.8	0.0	6
ML GLOBAL HIGH YIELD	2.2	2.7	2.3	0.7	3.8	6.5	6.1	0.0	6
FTSE GILTS OVER 15YRS	6.2	5.9	5.6	-2.5	9.4	11.2	13.1	0.0	7
FTSE INDEX-LINKED GILTS OVER 15YRS	6.4	3.6	1.1	-0.6	9.3	12.4	13.6	0.0	5
LIBOR - 3 MONTH	0.1	0.1	0.3	0.6	0.5	0.7	0.0	8.0	12

Returns are Sterling based
- See Notes on page 5 for definitions

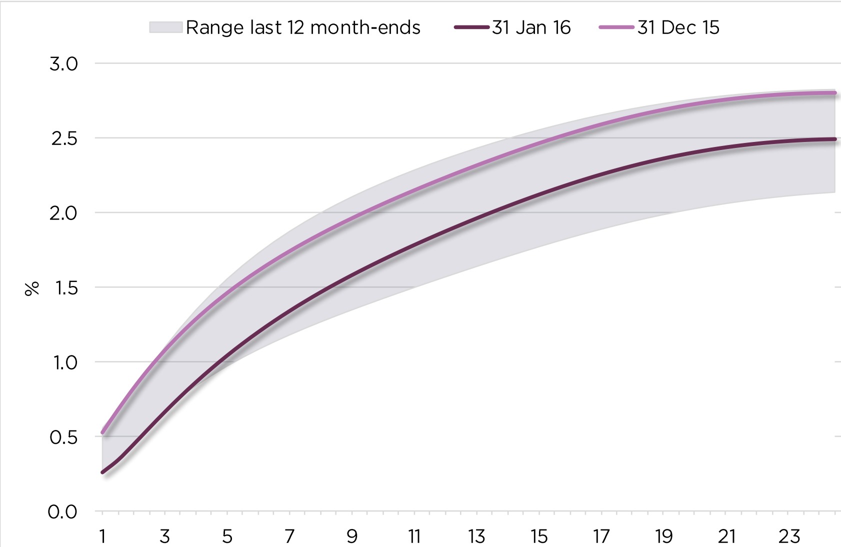
** The performance data for the IPD UK All Property Index is lagged by one month

SOURCE: FE ANALYTICS

BROADSTONE

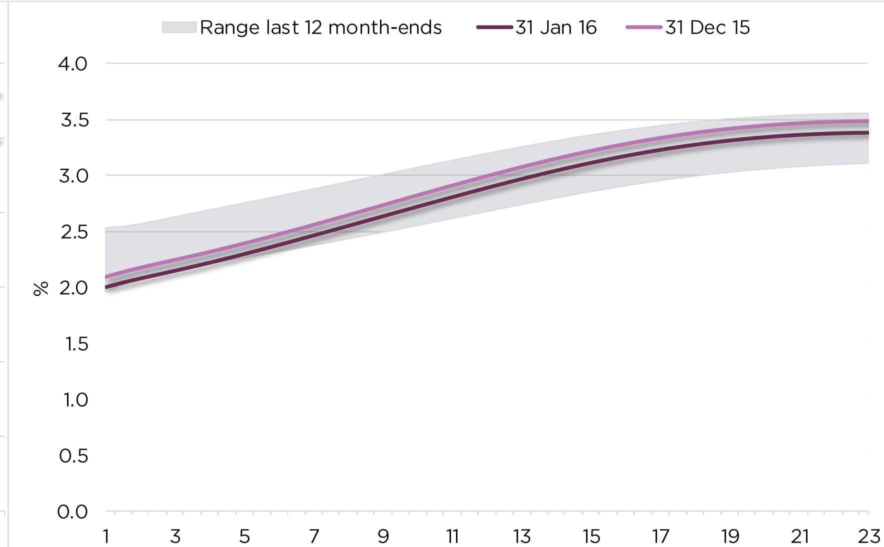
MARKET PULSE

NOMINAL GILT YIELD CURVE



SOURCE: BOE

BREAKEVEN INFLATION



SOURCE: BOE

CORPORATE BONDS

	Sterling Overall	Sterling AAA	Sterling AA	Sterling BBB	Global High Yield
Yield to Maturity	%	%	%	%	%
31/01/2016	3.38	1.71	2.51	3.90	8.91
31/12/2015	3.41	2.09	2.74	3.94	8.53
31/01/2015	2.78	2.04	2.38	3.12	6.89
Spread over Gilts					
31/01/2016	1.84	0.45	1.01	2.40	7.71
31/12/2015	1.59	0.43	0.88	2.07	6.94
31/01/2015	1.32	0.55	0.86	1.71	5.64

SOURCE: MERRILL LYNCH

BROADSTONE

NOTES

Volatility = Standard deviation of the historical monthly returns. The higher the volatility the higher the risk.

Sharpe Ratio = the level of return achieved for every unit of risk/volatility taken. The Sharpe Ratio is a measure of the return in excess of the return from a risk free asset (e.g. cash), taking into account the actual volatility of the Index. All other things being equal, you would prefer a larger Sharpe Ratio (i.e. more return per 'unit of risk' taken).

All data has been sourced from FE Analytics except where otherwise indicated. Figures are total return, in GBP. It may not be possible to invest in the index and currency movements may affect performance.