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MARKET PULSE

29 FEBRUARY 2016

PROFESSIONAL PENSIONS
UK PENSIONS
AWARDS
2016
FINALIST

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MARKET COMMENTARY – 29 FEBRUARY 2016

The start of February saw continued falls across world markets, resulting in the worst global sell-off since 2008. The MSCI World Index fell 8.7% between the end of 2015 and 12 February 2016, driven by a number of factors, including falling growth in China, the knock on impact in emerging markets, the resulting collapse in commodity prices (oil in particular), although it was helped in part by a strong US Dollar. Markets recovered during the second half of the month with the MSCI World Index up 1.1% in Sterling terms, driven by receding fears and the jump in the oil price. Brent crude ended the month at $36.27 per barrel from a 2016 low of £27.88 on 20 January 2016, following the announcement that Russia and Saudi Arabia had agreed to freeze output.

Sterling hit a seven year low against the US Dollar on Brexit fears. Many commentators believe that the political risks in the UK remain under-priced and that Sterling remains vulnerable to capital flight. The FTSE All Share Index ended the month up 0.8%, with oil stocks benefiting from a rise in oil prices. Despite falling growth expectations, the outlook for the UK economy remains positive.

In the Eurozone, the threat of deflation is rising once again, and ECB president Mario Draghi hinted that further stimulus would be announced following the next ECB meeting in March. The FTSE Europe Index ended the month up 0.2%. Meanwhile China announced further stimulus by cutting the reserve requirement ratio for banks in an effort to offset capital outflows and lower short term interest rates. The FTSE China Index fell 1.0% while the broader MSCI Emerging Markets Index rose 1.6% driven by stronger sentiment towards Asian emerging markets and a slowdown in non-resident outflows.

The Japanese Yen rose 8.8% against Sterling over the month as investors flocked to safe haven bonds, and the FTSE Japan Index fell 1.4%. The U.S. Federal Reserve appears to be in no hurry to raise interest rates that were previously scheduled for March 2016 despite inflation hitting a 3.5 year high of 2.2% in January (up from 2.1% the previous month). This helped fuel an increase in the S&P 500 over the final two weeks to end the month 1.7% up in Sterling terms.

Investors continued to invest in so-called safe-haven government bonds in the face of slowing inflation and slowing growth, and particularly those government bonds offering positive interest rates. As a result, UK gilt yields fell, with 20 year gilt yields easing to 2.31% at the end of February. Market expectations have priced in a rise in the 20 year gilt yield to 3.0% over the next five years. Corporate bond yield spreads over gilts widened as the prospects of default increased, with Sterling spreads increasing to 2.08% at the end of February 2016 and High Yield bond yields being broadly unchanged at 8.92%.

Colliers reported that commercial property trades were 10.5% down on last year with foreign buyers being the largest net investors and much of the stock coming from the sale and leaseback of property. They predict that trading volumes will be more restrained although much will depend on the outcome of the EU referendum.

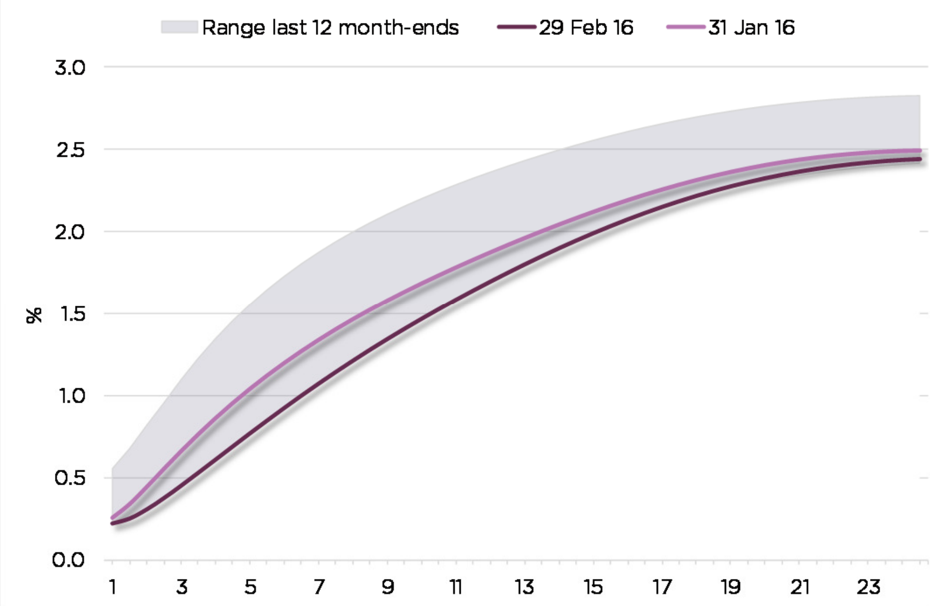
INDEX	1m %	3m %	6m %	1yr %	3yr p.a. %	5yr p.a. %	One Year Analysis: Volatility* %	Sharpe Ratio*	Positive Months
FTSE ALL SHARE	0.8	-3.5	-1.2	-7.3	3.5	5.1	11.4	0.0	6
MSCI WORLD	1.1	-0.9	4.9	-0.7	9.0	8.8	11.5	0.0	7
S&P 500	1.7	0.9	9.4	4.0	14.0	13.6	11.6	0.3	7
MSCI EMERGING MARKETS	1.6	-1.3	0.7	-14.8	-5.9	-2.1	14.1	0.0	4
FTSE EUROPE	0.2	-3.2	-0.8	-6.1	3.6	3.9	11.6	0.0	7
FTSE JAPAN	-1.4	-3.7	0.3	0.7	7.6	4.9	14.8	0.0	6
FTSE ASIA PACIFIC EX JAPAN	0.8	-0.8	3.9	-11.8	-2.2	2.2	15.1	0.0	6
FTSE CHINA INDEX	-1.0	-9.0	-3.5	-16.1	-1.0	1.5	27.0	0.0	4
IPD UK ALL PROPERTY INDEX**	0.7	2.8	6.1	13.6	14.7	10.7	0.7	12.8	12
iBoxx STG CORP	-1.4	-1.7	0.2	-2.4	4.5	6.7	5.0	0.0	6
iBoxx STG CORP AAA	-0.9	-0.4	1.5	-0.5	4.6	6.4	5.2	0.0	6
iBoxx STG CORP AA	0.1	2.5	4.8	3.2	7.8	7.6	8.2	0.3	7
iBoxx STG CORP BBB	-1.4	-2.0	-0.3	-2.7	4.6	7.3	4.6	0.0	6
ML GLOBAL HIGH YIELD	2.2	4.4	4.6	3.5	3.1	7.0	6.5	0.5	7
FTSE GILTS OVER 15YRS	1.7	5.8	7.2	7.3	9.6	11.2	10.3	0.7	8
FTSE INDEX-LINKED GILTS OVER 15YRS	-0.3	2.0	1.5	6.5	9.7	11.9	11.2	0.5	5
LIBOR - 3 MONTH	0.1	0.2	0.3	0.6	0.6	0.7	0.0	10.1	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

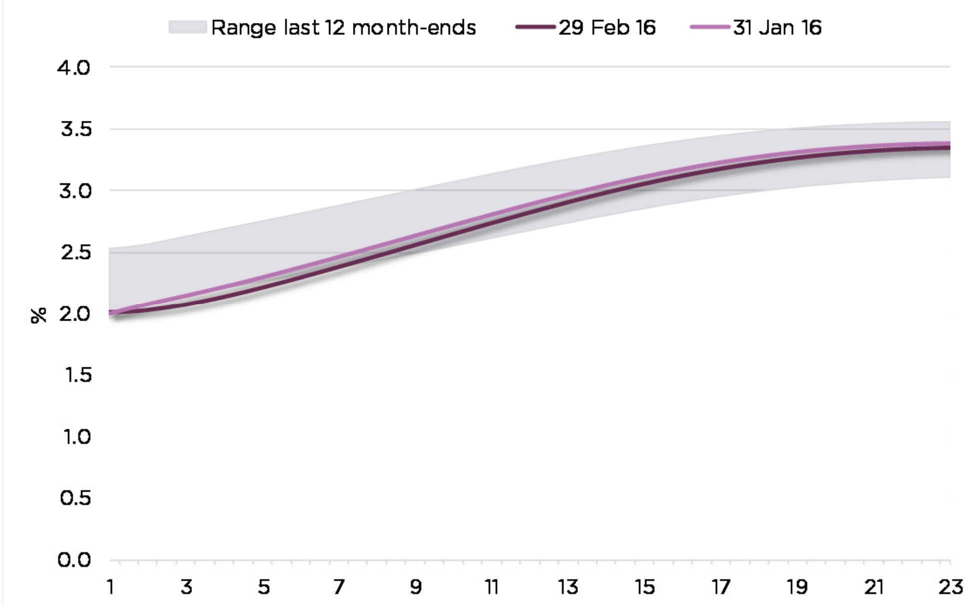
SOURCE: FE ANALYTICS

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	%	%	%	%	%
29/02/2016	3.45	1.57	2.47	3.99	8.92
31/01/2016	3.38	1.71	2.51	3.90	8.91
28/02/2015	3.06	2.37	2.71	3.34	6.53
Spread over Gilts					
29/02/2016	2.08	0.49	1.12	2.68	7.77
31/01/2016	1.84	0.45	1.01	2.40	7.71
28/02/2015	1.22	0.50	0.80	1.57	4.94

SOURCE: MERRILL LYNCH

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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.

Where data is obtained from a third party data provider, Broadstone accepts no responsibility or liability for the accuracy of data sourced from such third party providers.