

BROADSTONE

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MARKET PULSE

30 JUNE 2016



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MARKET COMMENTARY – 30 JUNE 2016

Global markets were generally subdued for the first three weeks of the month with relatively minor changes in the relative value of equities and gilts as markets tracked opinion polls and bets on the outcome of the UK referendum on whether to remain in the EU.

The referendum result to leave the EU surprised markets and resulted in significant falls in equity markets around the world. The FTSE 250, representing UK based companies, fell 13.6% over the two trading days following the referendum, whilst the broader FTSE All Share Index fell 7.0%. European stocks were down 8.1% and the broader FTSE All World Index fell 5.6% over the same period. Investors piled into safe haven government bonds with long dated UK gilts increasing 9% over the last week of June. Sterling fell initially from \$1.50/£ to £1.31/£ on 27th June and was trading at \$1.35 by the end of the month. Gold rose to a two year high of £1,353/oz.

Equity markets staged a strong recovery over the remaining period to the month end leaving the FTSE All Share Index up 2.8% over the month. The FTSE 250 remained down more than 6% over the period since the referendum. Economists and the Bank of England forecast that the UK would slip into recession in the latter half of 2016 or 2017 as a result of delayed investment and uncertainty around the timing of UK's exit and trade terms to be agreed with the EU. Political infighting within Westminster and fresh calls for a referendum in Scotland have added to future uncertainty. S&P downgraded UK's AAA credit rating to AA and Moody's changes their outlook to negative to reflect the increased uncertainty and early reports suggest that the UK property market (and London in particular) has already been adversely affected by the referendum result.

Mark Carney, BOE Governor, hinted at monetary policy easing during the summer despite the possibility of rising imported inflation. This, together with comments from other central banks, provided reassuring support for both equity and bond markets. In line with other core government bonds, UK gilt yields fell across the whole yield curve with 10 year gilt yields falling below 1.0% and the yield on German 10 year Bunds falling as low as -0.13%. The 20 year BOE spot rate decreasing from 2.28% at the end of May to 1.79% at the end of June 2016. The yield on 20 year index-linked gilts fell to -1.35%. At the time of writing gilt yields have continued to fall sharply.

Sterling Corporate bond yield spreads over gilts widened 0.2% over the month as default risk increased and High Yield bond yields increased marginally to 6.35% at the end of June 2016.

INDEX	1m %	3m %	6m %	1yr %	3yr p.a. %	5yr p.a. %	One Year Analysis		
							Volatility* %	Sharpe Ratio*	Positive Months
FTSE ALL SHARE	2.8	4.7	4.3	2.2	5.9	6.3	9.8	0.2	8
MSCI WORLD	7.7	8.8	11.4	15.1	12.2	11.2	12.4	1.2	8
S&P 500	9.2	10.2	14.5	22.3	16.5	16.3	12.9	1.7	8
MSCI EMERGING MARKETS	13.3	8.4	17.5	3.9	3.0	0.2	21.4	0.2	4
FTSE EUROPE	4.2	5.0	5.7	5.5	6.7	4.9	11.3	0.4	8
FTSE JAPAN	6.1	8.8	4.1	7.8	8.0	8.7	14.2	0.5	7
FTSE ASIA PACIFIC EX JAPAN	11.7	8.5	13.5	6.8	6.6	4.2	19.7	0.3	6
FTSE CHINA INDEX	12.0	9.2	6.2	-8.5	9.2	4.3	25.4	0.0	4
IPD UK ALL PROPERTY INDEX**	0.6	0.9	3.4	10.4	14.6	10.4	1.5	4.1	11
iBoxx STG CORP	2.5	4.4	7.5	9.1	7.7	7.9	4.8	1.8	8
iBoxx STG CORP AAA	7.2	9.3	17.0	20.1	12.7	9.7	8.4	2.3	8
iBoxx STG CORP AA	3.5	5.4	9.3	10.9	8.0	7.6	4.9	2.1	8
iBoxx STG CORP BBB	2.0	3.9	6.7	8.1	7.6	8.4	4.6	1.7	8
ML GLOBAL HIGH YIELD	9.7	12.3	19.7	20.3	8.2	9.2	9.6	2.1	9
FTSE GILTS OVER 15YRS	10.3	11.8	20.9	24.1	15.0	13.1	12.6	1.9	9
FTSE INDEX-LINKED GILTS OVER 15YRS	14.0	13.4	21.9	20.7	15.6	13.8	16.8	1.2	6
LIBOR - 3 MONTH	0.1	0.2	0.3	0.6	0.6	0.6	0.0	10.9	12

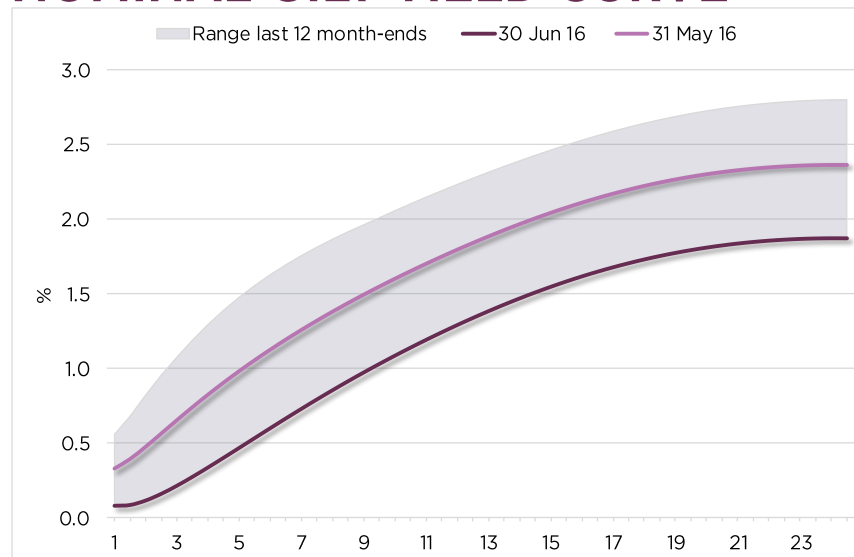
Returns are Sterling based

• See Notes on page 5 for definitions

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

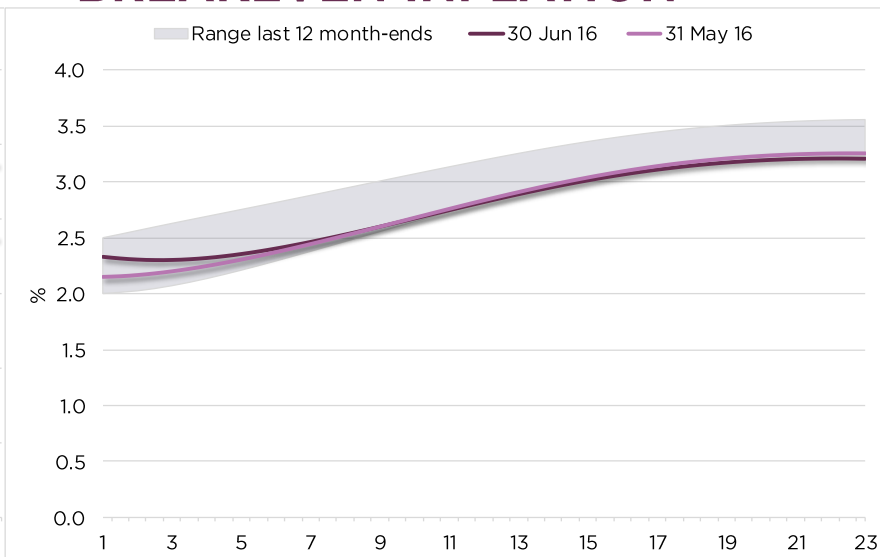
SOURCE: FE ANALYTICS

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	%	%	%	%	%
30/06/2016	2.81	1.19	2.01	3.30	7.12
31/05/2016	3.14	1.60	2.32	3.64	7.57
30/06/2015	3.47	2.63	3.06	3.79	6.99
Spread over Gilts					
30/06/2016	1.85	0.51	1.00	2.42	6.35
31/05/2016	1.65	0.43	0.88	2.18	6.21
30/06/2015	1.45	0.59	0.94	1.84	5.38

SOURCE: MERRILL LYNCH

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).

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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.

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