

**BROADSTONE**

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# MARKET PULSE

31 July 2016



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## MARKET COMMENTARY - 31 JULY 2016

July was a strong month for the global equity markets with the MSCI World Index up 5.0% over the month. Both the developed and emerging markets posted positive returns, with the emerging markets performing particularly well.

The UK referendum result to leave the EU surprised markets in June and resulted in significant falls in equity markets around the world. The UK markets recovered well towards the end of June and in July with the FTSE All Share Index returning 4.0% over the month. The political situation in the UK has now stabilised and the fall in the value of sterling and rise in inflation has the potential to increase economic activity. However, businesses are now cautious and investing and hiring in the UK is facing a period of prolonged uncertainty. The UK has the potential to fall into recession in the second half of 2016.

European stocks were up over the month with the FTSE Europe returning 4.8% as France, Italy and other Eurozone states took advantage of the Brexit scare to end austerity more quickly than planned. Sterling fell initially from \$1.35/£ at the end of June to \$1.32/£ at the end of July.

In the US the S&P 500 returned 4.4% over the month. Headline growth figures were down in the second quarter but consumer spending, new home sales and mortgage applications were all up. The US Federal Reserve's retreat from four interest rate rises this year has revived the fortunes of the emerging markets with the MSCI Emerging Markets Index returning 5.8% over the month. Latin America and China have performed well with figures from China pointing towards strong growth in the third quarter. Chinese manufacturing data has been positive and orders are the highest in over two years.

UK gilt yields continued to fall across the whole yield curve with 10 year gilt yields falling to 0.8% as investors continued to pile into safe haven government bonds. Switzerland, Japan, and Germany can all borrow for ten years at negative rates, Holland for nine years and France, Austria, Finland, Belgium, and Denmark for eight years. The 20 year BOE spot rate decreased from 1.79% at the end of June to 1.57% at the end of July 2016. The yield on 20 year index-linked gilts fell to -1.45%. Corporate bond yield spreads over gilts tightened, falling to 1.53% at the end of July 2016 and High Yield bond yields fell from 7.12% at the end of June to 6.57% at the end of July 2016.

In June, the IPD UK All Property Index rose by 0.2%. It appears that UK property, particularly in London, has already started to be affected by the planned UK exit from the EU, which has reduced global interest in UK sectors such as property. Some property funds have also closed as a precautionary measure against redemptions.

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## MARKET PULSE

INDEX	1m %	3m %	6m %	1yr %	3yr p.a. %	5yr p.a. %	One Year Analysis		
							Volatility %	Sharpe Ratio	Positive Months
FTSE ALL SHARE	4.0	7.7	11.9	3.8	4.9	7.6	10.3	0.3	8
MSCI WORLD	5.0	14.5	19.6	17.6	12.0	13.2	12.9	1.3	8
S&P 500	4.4	16.8	21.0	24.1	16.2	18.3	13.1	1.8	8
MSCI EMERGING MARKETS	5.8	16.2	28.0	17.0	4.6	1.8	20.7	0.8	5
FTSE EUROPE	4.8	9.3	14.1	6.6	5.9	7.1	11.7	0.5	8
FTSE JAPAN	7.3	13.7	17.2	14.0	10.3	9.9	15.6	0.9	7
FTSE ASIA PACIFIC EX JAPAN	6.4	17.6	26.2	18.8	8.1	5.9	19.6	0.9	7
FTSE CHINA INDEX	4.3	16.4	22.5	7.6	9.2	5.8	22.8	0.3	5
IPD UK ALL PROPERTY INDEX**	0.2	1.3	2.4	9.2	14.5	10.4	1.5	5.8	11
iBoxx STG CORP	5.2	9.1	12.4	12.8	8.7	8.4	6.5	1.9	8
iBoxx STG CORP AAA	4.2	14.6	17.4	22.2	13.6	9.9	8.8	2.5	8
iBoxx STG CORP AA	4.2	9.3	12.1	13.7	8.8	7.9	5.9	2.2	8
iBoxx STG CORP BBB	5.3	8.4	12.0	11.9	8.5	9.1	6.5	1.7	8
ML GLOBAL HIGH YIELD	3.3	14.1	20.9	23.7	8.5	10.2	9.6	2.4	9
FTSE GILTS OVER 15YRS	3.6	18.1	18.0	24.5	16.0	12.8	12.6	1.9	9
FTSE INDEX-LINKED GILTS OVER 15YRS	1.4	18.7	16.1	17.4	16.2	13.2	16.6	1.0	6
LIBOR - 3 MONTH	0.1	0.1	0.3	0.6	0.6	0.6	0.0	-	12

Returns are sterling based

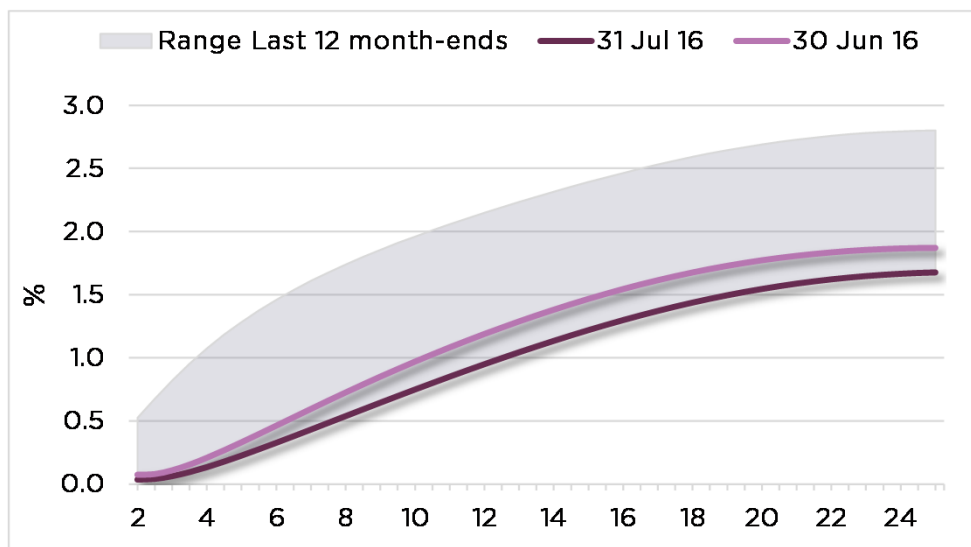
\* Notes on page 7 for definitions

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

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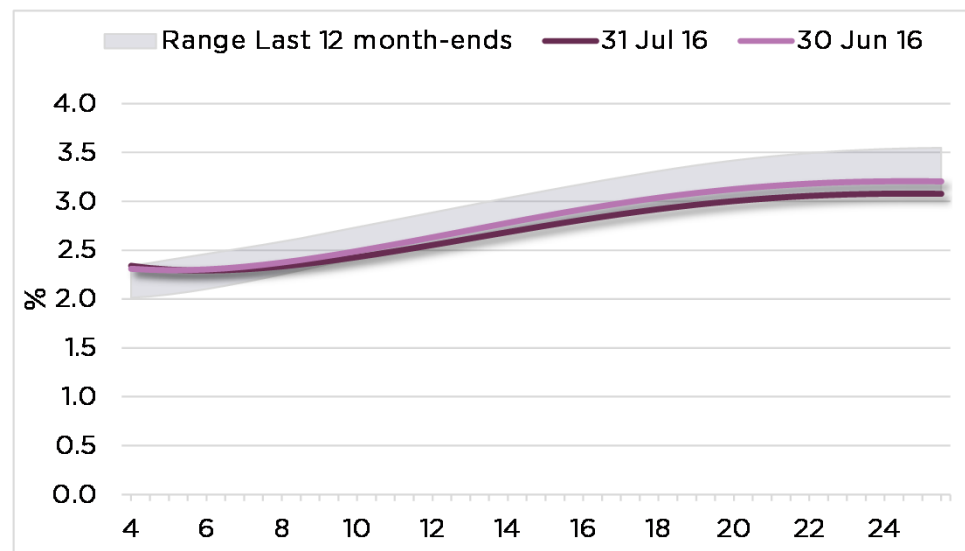
# MARKET PULSE

## NOMINAL GILT YIELD CURVE



SOURCE: BOE

## BREAKEVEN INFLATION



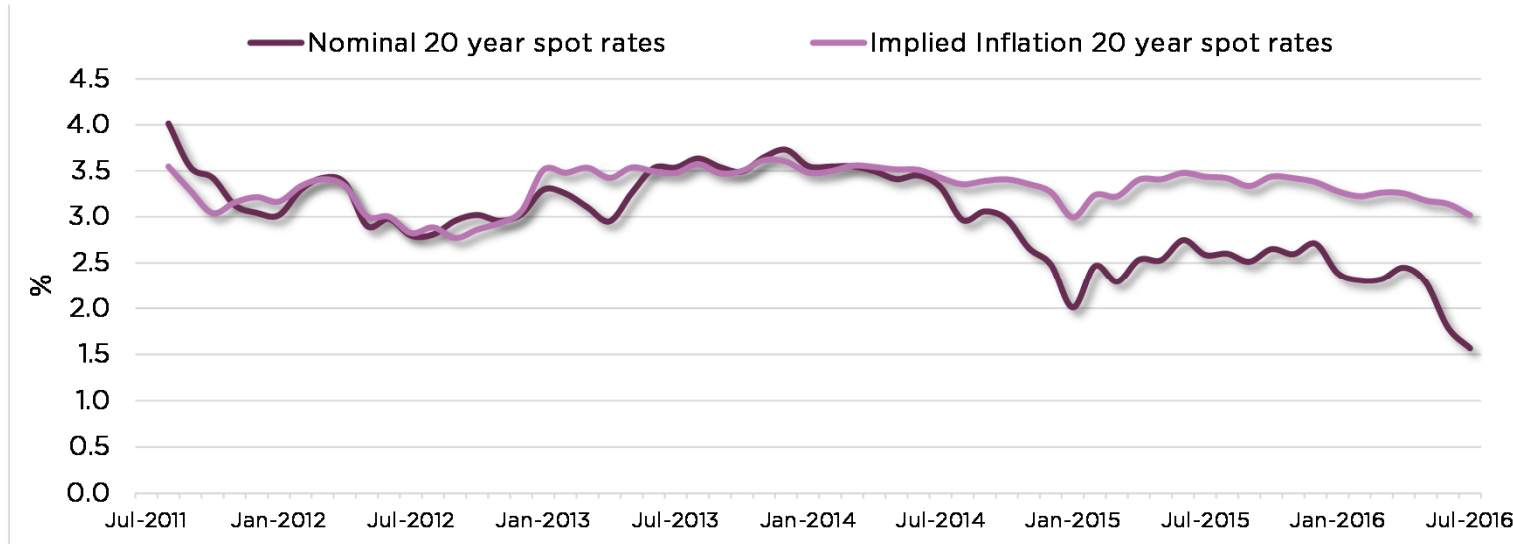
SOURCE: BOE

## CORPORATE BONDS

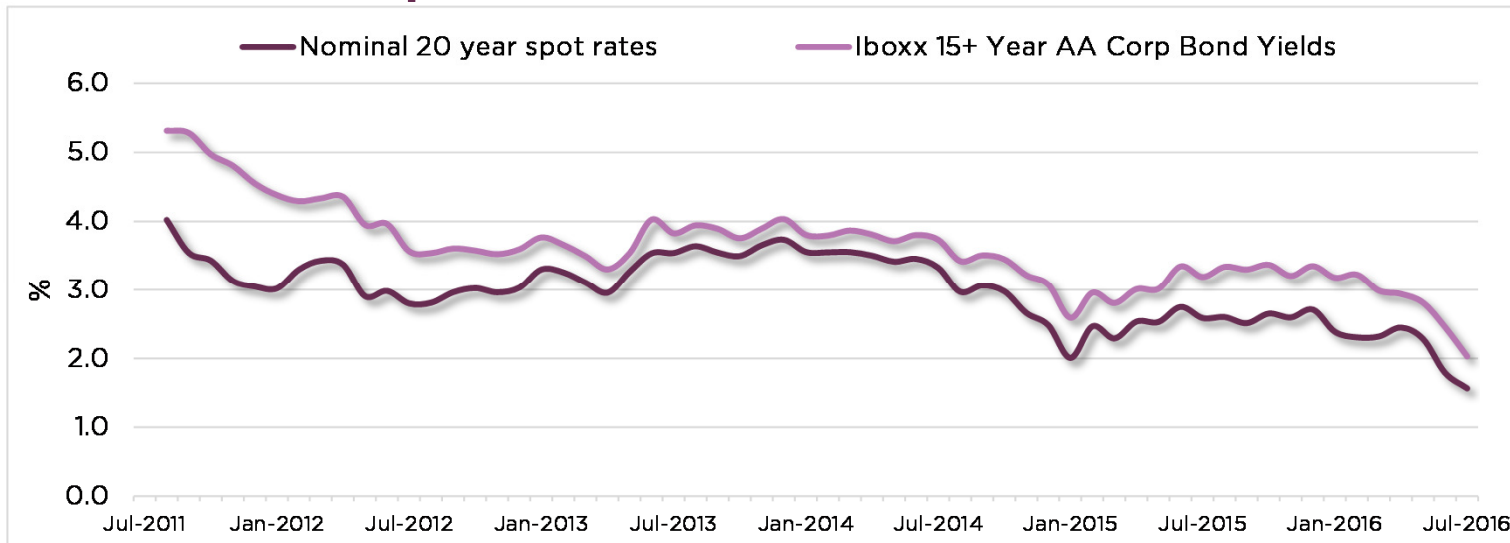
	Sterling Overall	Sterling AAA	Sterling AA	Sterling BBB	Global High Yield
Yield to Maturity	%	%	%	%	%
31/07/2016	2.34	0.97	1.66	2.74	6.57
30/06/2016	2.81	1.19	2.01	3.30	7.12
31/07/2015	3.29	1.94	2.58	3.69	7.25
Spread over Gilts					
31/07/2016	1.53	0.43	0.82	2.00	5.77
30/06/2016	1.85	0.51	1.00	2.42	6.35
31/07/2015	1.40	0.35	0.75	1.81	5.70

SOURCE: MERRILL LYNCH

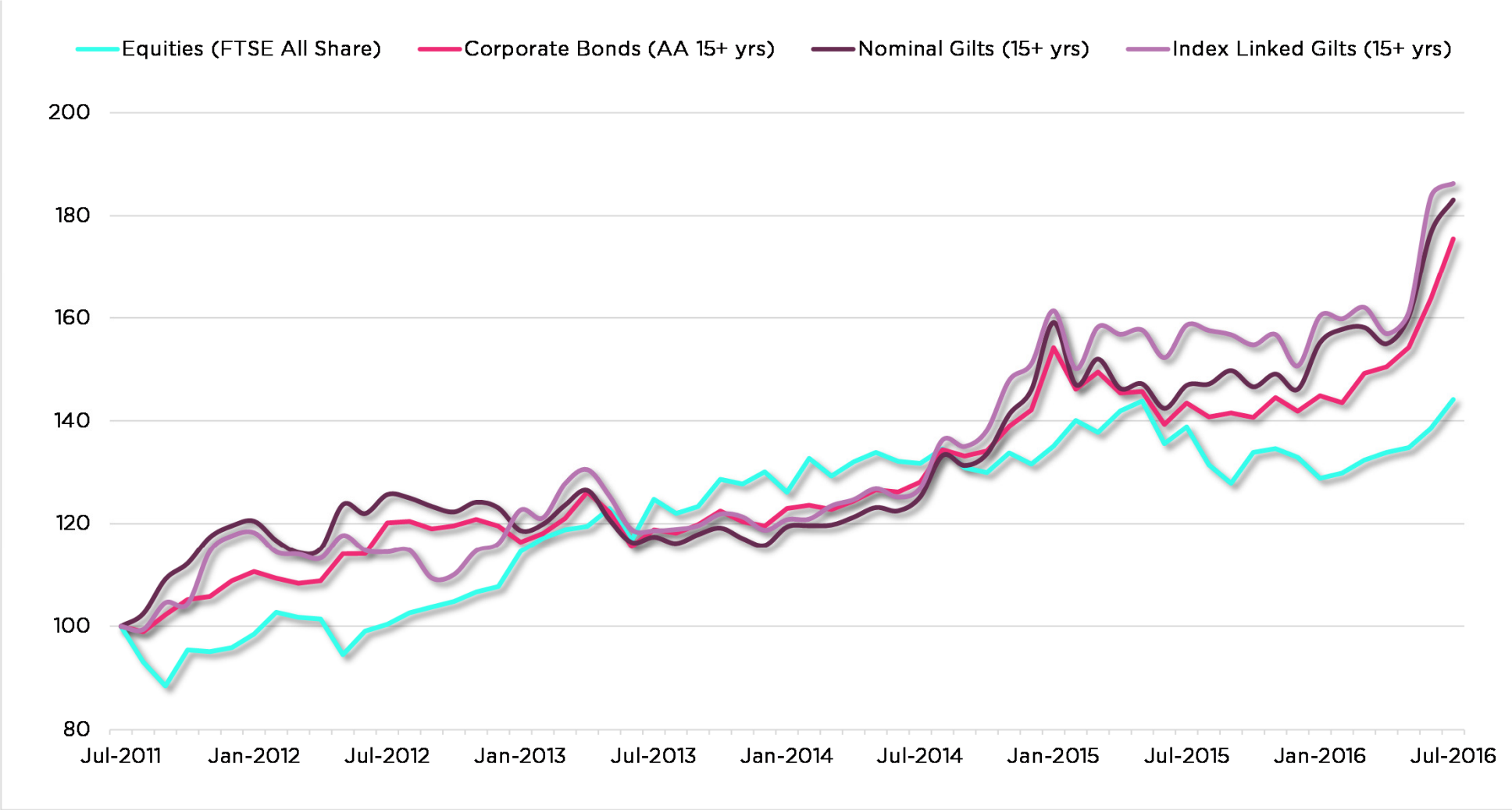
## Historical Bond Yields (Nominal v Inflation)



## Historical Yield Spreads



## Five Year Historical Performance Comparison



**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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