Market conditions – second quarter of 2013

Markets

Q2 '13	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	4 Years % p.a.	5 Years % p.a.	10 Years % p.a.
EQUITIES							
UK							
FTSE All Share	-1.7	17.9	6.9	12.8	14.8	6.7	9.0
FTSE 100	-2.0	15.8	6.2	12.1	14.0	5.9	8.3
FTSE 250	0.1	29.9	10.7	17.0	20.1	11.8	13.9
MSCI Value	-1.6	16.4	9.1	15.2	14.7	6.8	8.3
MSCI Growth	-2.4	15.1	4.2	10.0	13.6	5.2	8.0
FTSE Small Cap	1.2	31.5	10.9	15.4	17.4	9.0	8.9
UK Real Div. Growth	*1.8*	*5.1*	*8.5*	*6.9*	*-0.0*	*-2.9*	*2.2*
Overseas							
North America	2.2	23.6	14.4	16.8	19.0	12.3	8.6
Europe ex UK	0.8	27.9	1.1	9.8	11.3	4.2	9.4
Japan	4.5	26.3	9.7	8.2	8.8	5.5	7.1
Pacific Basin ex Japan	-10.3	12.5	0.9	9.2	14.3	8.9	14.6
Emerging Markets	-7.5	7.7	-3.7	3.6	11.0	5.9	15.6
World (FTSE All World)	-0.0	21.4	7.9	12.4	15.1	8.8	9.3
All World ex UK	0.1	21.9	8.1	12.4	15.2	9.0	9.3
MSCI AC Value	0.5	22.6	8.0	11.9	14.7	8.8	9.3
MSCI AC Growth	-0.8	19.8	8.0	12.9	15.5	8.4	8.7
Property	1.1	3.3	4.0	5.7	10.0	1.7	5.6
Bonds & Cash							
UK Gilts (Over 15 years)	-5.9	-4.6	10.4	7.8	7.9	8.5	5.9
UK Gilts (All Stocks)	-3.8	-2.4	6.4	5.3	5.6	7.1	5.3
UK Index Linked (All)	-6.5	2.4	8.2	8.4	8.6	6.9	6.9
Overseas Bonds	-2.9	-1.7	1.8	2.1	5.2	9.4	5.8
Cash	0.1	0.5	0.5	0.5	0.5	0.9	2.9
Corporate (All Inv Grade)	-2.8	8.1	8.0	7.4	10.2	7.3	5.0
Corporate (AAA)	-3.5	-0.2	5.2	4.6	5.9	4.3	3.6
Corporate (AA)	-3.2	3.0	6.9	6.2	8.0	6.5	4.6
Corporate (A)	-3.2	5.7	6.7	6.4	9.4	5.1	3.7
Corporate (BBB)	-2.3	12.9	9.7	9.0	12.9	10.7	6.8
Other							
Total Fund (CAPS Pooled Median)							
inc. Property	*-1.5*	*15.2*	*5.6*	*10.0*	*12.1*	*6.5*	*8.1*
Total Fund (WM Weighted Average)							
inc. Property	*-2.1*	*11.6*	*7.3*	*9.9*	*11.7*	*6.4*	*8.3*
ex Property	*-2.4*	*12.1*	*7.6*	*10.2*	*11.8*	*6.7*	*8.4*
Retail Price Index	*0.6*	*2.7*	*2.9*	*3.6*	*4.0*	*2.9*	*3.2*
Consumer Price Index	*0.6*	*3.3*	*2.8*	*3.3*	*3.3*	*3.0*	*2.7*
National Average Earnings	*0.6*	*0.9*	*1.4*	*1.7*	*1.6*	*1.7*	*2.8*

Estimates

Q2 2013 commentary

The most significant event during the quarter came in late May, when the US central bank hinted it may begin scaling back its programme of asset purchases by the end of the year. This raised immediate concerns that economic activity, which the programme was designed to support in the first instance, might be adversely affected. A potential credit crunch in China, reduced forecasts for economic growth in the Eurozone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging Markets, offsetting gains earlier in the quarter. The FTSE All-World index was flat over the quarter. In the UK, the FTSE All Share index returned -1.66% over the quarter.

Bond investors interpreted the prospect of reduced assets purchases in the US with some caution. Bond prices fell (yields rose), in all major markets. The yield on the 10 year US Treasury, a widely followed benchmark, reached its highest level in more than a year.

In the UK, the Chancellor of the Exchequer presented his spending review in June against a background of intense debate over the efficacy of austerity. Further savings of £11.5bn were announced. With an eye beyond the immediate difficulties, the Chancellor also announced funding of £100bn for infrastructure projects between now and the end of the decade.

Key events during the quarter were:

Global Economy

- The Governor of the Bank of England stated the UK economy is showing signs of renewed vigour;

  The UK ‘funding for lending’ scheme was extended, despite poor initial take up;

- Rating agency S&P raised its outlook for the US economy but reiterated concerns about the high level of debt;
- The European Commission allowed some member states to slow the pace of austerity measures;
- Short-term interest rates were unchanged in UK, US and Japan but were cut in the Eurozone, from 0.75% to 0.50%;
- The Eurozone reported a fourth consecutive quarter of economic contraction.

Equities

- The best performing sectors relative to the ‘All World’ Index were Health Care (+3.0%) and Telecommunications (+2.9%); the worst were Basic Materials (-9.8%) and Oil & Gas (-3.1%);
- The Dow Jones equity index (US) reached a record high (15,000) in May

Bonds

- UK government bond prices fell (yields rose), but outperformed their overseas counterparts;
- UK index linked issues (-6.5%) underperformed fixed interest issues (-3.8%).

Market Conditions

General

The rally in risk markets which had been in place since the summer of 2012 came to a rather untidy end in May, essentially arising from concerns about central banks' stimulus packages. In Japan, where stimulus started only this year, the question marks related to the likelihood of success. In the US, the statement from Ben Bernanke about the need for an eventual tapering of quantitative easing was sufficient to create unease. Adding to these problems, China indicated in June that it would rein in credit creation, allowing interest rates to rise, in order to take some heat out of the economy. Market reaction reflected dependency on the programmes and the underlying strength of economies. US equities were largely unaffected; equities in Europe (including the UK) which have a greater cyclical exposure, had a modest setback. However, Asia Pacific and Emerging Market equities suffered a more material decline; this reflects not just a likely lower demand from China but also weaker investment flows into these areas as US quantitative easing tapers off. The effect on bond markets was more material with quite significant rises in real and nominal yields in major government bond markets. Corporate bond yields also rose, but higher coupons provided some additional cushion.

Equities

In sterling terms, global equities were flat over Q2 (as measured by the FTSE All World index). The strongest returns came from Japan (+4.5% in sterling terms) followed by North America (+2.2% in sterling terms). The weakest regions were Asia Pacific ex Japan (-10.3% in sterling terms, but -2.4% when denominated in local currencies) and Emerging Markets (-7.5% in sterling terms). Europe (ex UK) returned +0.8% in sterling terms while UK equities returned -1.7%. Sterling declined by +0.6% on a trade-weighted basis. Over the 12 month period ending 30 June 2013, the strongest returns (sterling denominated) came from Europe (ex UK) closely followed by Japan and North America (all in the range +23.6 to +28%). UK equities returned +17.9%, Asia Pacific returned +12.5% and Emerging Markets +7.7%.

Over Q2, the strongest sector return relative to the All World index came from Healthcare (+3% relative). The weakest relative sector return came from Basic Materials (-9.8% relative). Over 12 months, the same pattern emerged with Healthcare strongest (+8.5% relative) followed by Financials (+7.9%) and Basic Materials weakest (-18.9%). Weakening growth in China, a significant importer of basic materials, has damaged performance in that sector.

Value stocks outperformed growth stocks modestly over the second quarter. The style variation over the 12 month period was not particularly strong; value stocks outpaced growth stocks by just under 3%.

UK equities

Large cap stocks (FTSE 100) returned -2% over the quarter, with FTSE 250 (mid cap stocks) returning +0.1% and Small Cap returning +1.2%. Over the 12 month period ending 30 June 2013, the FTSE 100 returned +15.8% significantly underperforming the FTSE 250 (+29.9%) and Small Cap (+31.5%). Value stocks outperformed growth stocks modestly over the quarter (-1.6% versus -2.4%); value was ahead of growth by 1.2% over 12 months. At a sector level, the strongest sector was Telecoms (+7% relative to the FTSE All-Share), followed by Healthcare (+4%). The weakest sector was Basic Materials (-15.2% relative), principally the Mining sector. Over 12 months, the weakest sectors were Basic Materials (-25.6% relative) and Oil & Gas (-14.1% relative). The strongest sector over 12 months was the tiny Technology sector (+16.2% relative) followed by Financials (+13.3%) and Consumer Services (+12.4%).

The strongest performing stock in the FTSE 100 over Q2 was Lloyds Banking Group (+31.9% relative to the FTSE All-Share); another strong performer was Easyjet (+22% relative over 3 months and +111% relative over 12 months). A large number of weakest performers were Mining stocks, led by Fresnillo (-32.1% relative), but also including Randgold, Anglo American and Glencore Xstrata (all underperforming by more than 20% relative).

Bonds

Prices of conventional gilts fell over the second quarter, with the All-Gilts index returning -3.8%. The long-dated index returned -5.9%. Index-linked gilts were also weak, with the All Index Linked index returning -6.5%. Corporate bond prices fell less sharply, with UK investment grade credit returning -2.8% over the quarter. The strongest area yet again was the BBB issues (-2.3%). Overseas bonds returned -2.9% (in sterling terms). Over the 12 month period ending 30 June 2013, the All-Gilts index returned -2.4%, index-linked gilts delivered +2.4%. Corporate bonds returned +8.1% over 12 months. BBB-rated issues producing the strongest returns (+12.9%).

Property

The estimated return of the IPD Monthly index for Q2 was +1.1% (this represents the return on directly held property).

Prepared by:-

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For and on behalf of Hymans Robertson LLP

Risk Warning