

# Schroders

## Monthly markets review

### Overview of markets in April 2015

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#### Highlights:

- Global equities delivered positive returns in April with emerging markets outperforming developed markets. Crude oil prices rebounded over the month.
- US equities gained as the prospect of an interest rate hike receded. Merger & acquisition activity continued and the start of the first quarter earnings season was more positive than many had feared.
- Eurozone equities came under pressure as bond yields rose and the euro strengthened against the US dollar. UK shares were supported by gains for the oil & gas sector.
- Japanese stocks registered positive returns though there was some disappointment at month-end that the central bank did not announce further monetary policy easing.
- Emerging markets delivered strong positive returns. Chinese equities experienced a liquidity-driven rally as the central bank cut the reserve requirement ratio. Russian stocks benefited from the stronger oil price.

#### US

The start to the first quarter reporting season was not as bad as the market had come to expect so US equities recovered some of the ground that they lost in March. The benchmark S&P 500 index ended the period up 1.0%, despite worries that a resurgent dollar would trigger a slew of profit warnings. A recovery in crude oil prices also helped sentiment, as did a continued pick-up in merger & acquisition (M&A) activity. While macroeconomic data was generally poor, bad news was treated as good for the markets, by pushing back expectations as to when the Federal Reserve (Fed) would pull the trigger on the first interest rate rise.

M&A highlights included news of FedEx's bid for European rival TNT, while generic drugs leader Mylan bid for rival group Perrigo in an attempt to fend off a hostile takeover from Israel's Teva Pharmaceutical Industries. On the negative side, Comcast dropped its ambitions for Time Warner Cable after running into regulatory resistance.

The financials sector performed well with Goldman Sachs reporting strong first-quarter results. Meanwhile, the energy sector was the best-performing market segment overall, buoyed by crude oil's recovery. However, some of the shine was taken off this following weak first quarter results from integrated major ConocoPhillips, the first of the big US oil producers to report.

Core non-durable goods orders from the Department of Commerce were weak again, while the Conference Board's consumer sentiment index continued its volatile trajectory since the start of 2015, falling back to 95.2 in April after March's recovery. In a statement following the latest Federal Open Market Committee rate-setting meeting, the Fed suggested it might have to wait until the third quarter to raise rates. First quarter GDP came in at a lower-than-expected 0.2% annualised.

#### Eurozone

Eurozone equities delivered a negative return in April, although the MSCI EMU index is still up 17% on a year-to-date basis. The month saw a reversal of recent trends with government bond yields rising, albeit still to very low levels, and the euro strengthening against the US dollar. The euro's relative strength was particularly pronounced towards the end of the month after US GDP data disappointed, pushing out expectations of a US interest rate rise. Greece's negotiations with its creditors continued with little sign of a breakthrough.

Economic data from the eurozone was mixed over the month. The final composite purchasing managers' index (PMI) for March came in at 54.0 although the flash reading for April slipped to 53.5. Index compiler Markit said the slowdown was due to France and Germany and that the rest of the eurozone enjoyed the strongest growth since August 2007. Eurozone annual inflation was estimated at 0.0% in April, up from -0.1% in March. The region's unemployment rate remained stable month-on-month at 11.3% in March. Spain announced stronger-than-expected first quarter GDP growth of 0.9% quarter-on-quarter.

As market trends reversed, so did sector leadership. Energy was the top gainer, helped by rising oil prices over the month, while utilities also posted positive returns. Most other sectors registered negative returns with healthcare – which had been very strong in previous months – the worst performer. By country, the German stockmarket was one of the weakest amid worries the recent strengthening of the euro would negatively impact exporters. Outside of the eurozone, Norway's stockmarket was supported by the oil price recovery.

## UK

UK equities performed strongly in April led by the heavyweight oil & gas and basic resources sectors, with both company-specific and top-down factors proving to be positive drivers. The FTSE All-Share rose 3.0% in the month, outperforming other major global equity indices.

The month began with news of a bid for BG Group from Royal Dutch Shell. The oil & gas exploration companies were helped across the board by a strong recovery in crude oil prices. The backdrop for the miners also improved during the month amid signs of stronger demand from China. The large diversified miners Glencore, Rio Tinto and BHP Billiton all generated strong share price gains in the month.

The banks performed strongly, led by HSBC after it said it was considering relocating from the UK. Altogether, the large caps outperformed mid and small-cap companies, with the FTSE 250 and FTSE Small Cap indices recording respective gains of 2.7% and 1.6%, although mid caps remained well ahead on a year-to-date basis, up 9.6%.

The UK-focused companies generally put in a resilient performance. The general retailers were buoyed after Marks & Spencer reported an increase in fourth-quarter sales. Meanwhile the pubs, gaming and travel groups generally performed well – in the latter a beaten-down First Group rallied after fourth-quarter results came in line with expectations – as did the housebuilders.

Overall the consumer services sector was a drag on market performance as it was heavily affected by a poor performance from the FTSE 100 food retailers after Tesco revealed its biggest-ever full-year loss of £6.4 billion. However, by number, the general prognosis for this collection of mainly UK-centric names was positive, and consistent with some upbeat forward-looking economic data.

## Japan

The Japanese equity market rose steadily during April although there was an unusually sharp decline on the final day. As a result, the Topix Index delivered positive returns of 3.2% for the month as a whole. However, for a sterling-based investor, almost all of this gain was reversed by a sharp weakening of the Japanese yen in the second half of April.

In a possible change of trend in market dynamics, some recent market leaders, including foods and pharmaceutical stocks, underperformed. Most financial-related sectors - including banks, insurance and brokers - outperformed.

Economic data were mixed for Japan. Industrial production data for March were better-than-expected, although the near term expectations remain subdued. Inflation data continue to undershoot the Bank of Japan's target and the central bank generally downgraded its own mid-term expectations for the economy during April. At the very end of the month the regular Monetary Policy Committee decided to leave current policy unchanged, which had previously seemed to be a universally-expected outcome. However, in the event, the lack of any fresh easing moves seemed to trigger the profit taking seen on 30 April which resulted in a 2.1% fall in the market.

The last week of April also saw the start of the results season for the fiscal year ended 31 March. The bulk of companies will report in early May, but first indications suggest some positive surprises for the year just ended, although most companies are taking a very conservative approach to their forecasts for 2015.

## Asia (ex Japan)

Asia ex Japan equities finished April up strongly, driven mainly by a surge of liquidity in Chinese and Hong Kong markets as expectations of further easing measures by the Chinese authorities saw the bullish sentiment on equities continue. Indeed, Chinese equities were the region's biggest winner, recording outsized gains despite first quarter GDP growth slowing to 7% year-on-year. The continued gains were mainly attributed to easing measures put in place by the Chinese government to soften the impact of slowing economic data. Over the month, the People's Bank of China (PBoC) cut banks' reserve ratio requirement (RRR) by 100 basis points, the largest such reduction since 2008, in an effort to spur lending.

In Hong Kong, stocks gained strongly given the liquidity spillover from China's A shares into Hong Kong's H shares. This valuation gap between select A and H shares caused a deluge of mainland fund inflows into the market. Over the strait in Taiwan, the market gained to hit a 15-year high amidst an announcement that Chinese authorities are looking at establishing a Shanghai-Taiwan stock connect programme. Fellow exporter Korea saw its market gain as cheaper valuations fuelled foreign buying of Korean stocks.

In ASEAN, the Philippine market fell as investors took profits while Indonesia stocks were the biggest loser over the month, declining on the back of worries over growth and disappointing corporate earnings. Thailand's market finished flat. Meanwhile, Indian stocks fell as they recorded a second consecutive month of losses as disappointing corporate earnings and a potential retrospective tax on foreign investors weighed on investor sentiment.

## Emerging markets

Emerging markets enjoyed a very strong period and the MSCI Emerging Markets (EM) index posted a positive return, outperforming the MSCI World index, although almost half of the gains were due to a powerful liquidity driven rally in the Chinese market. Emerging Europe was the best performing region. Hungary was up sharply, with Mol and Gedeon Richter, which has a subsidiary operation in Russia, generating the largest gains. Russia rallied strongly, due primarily to a 12.8% appreciation of the rouble relative to the US dollar. Given Russia's high dependence on oil revenues, market sentiment also improved on the back of a 21.2% rebound in Brent crude. Turkey lagged the benchmark but posted a positive return. The central bank left rates unchanged as inflation ticked up more than forecast to 7.6%. Egypt also underperformed as large index name CIB fell back. The country's participation in the Saudi-led coalition's military action in Yemen also contributed to some risk aversion during the period.

In Latin America, all of the index countries registered a positive return. A rally in Brazilian equities was magnified by a 6.0% appreciation in the real relative to the US dollar. A sharp rise in the stock of state-controlled oil company, Petrobras, supported gains. Mexico was the weakest regional market with a number of consumer names, which performed well in the wake of Q1 earnings results, retracing some gains. However, economic releases remained relatively firm; retail sales growth accelerated to 5.6% year-on-year whilst manufacturing production growth increased to 4% year-on-year.

Emerging Asian markets fared well but, with the exception of China, underperformed. China was the stand-out market after the local securities regulator's move at the end of March to permit mainland mutual funds to invest in Hong Kong stocks, which has supported an extended liquidity driven rally. Expectations for further stimulus measures also provided support to the equity market, as macro data moderated. India was the worst performing index country. Underlying macro data was relatively firm, notably manufacturing PMI and industrial production. Trade data was the exception as exports have been hit by the currency's strength relative to the euro. However, rains in the north and west have weighed on market sentiment amid concerns these could spur food price gains, increase inflation and prevent the central bank from cutting interest rates.

## Global bonds

High yield bonds materially outperformed both investment grade and sovereign bond indices in April. The continued moderation in US and Chinese macroeconomic data weighed on prospects for global growth. Accordingly, market expectations for a Fed rate hike in 2015 cooled. Sovereign and investment grade yields rose and the US dollar declined against a range of major currencies. The US dollar declined -3.5% against sterling, -4.4% against the euro and -0.6% against the yen.

The 10-year US Treasury yield rose from 1.92% to 2.03%. In the UK, the 10-year gilt yield rose from 1.58% to 1.83%, eradicating the yield contraction from March. The 10-year Bund yield rose from 0.18% to 0.37%, in

only the third monthly rise since December 2013. In peripheral Europe, Italian and Spanish bond yields also rose sharply. The 10-year Italian yield rose from 1.24% to 1.50% and the Spanish equivalent rose from 1.21% to 1.47%.

In credit markets, the investment grade BofA Merrill Lynch Global Corporate Bond index fell -0.58%, while the high yield equivalent gained 1.64% (in local currency)<sup>1</sup>. Gains in high yield bonds were led by US names, though sterling and euro high yield bonds also advanced.

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<sup>1</sup> Investment grade bonds are the highest quality bonds as determined by a credit ratings agency. High yield bonds are more speculative, with a credit rating below investment grade.

## Overview: total returns (%) – to end of April 2015

Equities	1 month			12 months		
	EUR	USD	GBP	EUR	USD	GBP
MSCI World	-1.87	2.40	-1.09	33.62	7.99	18.66
MSCI World Value	-1.10	3.19	-0.32	28.68	4.00	14.27
MSCI World Growth	-2.58	1.65	-1.80	38.63	12.04	23.10
MSCI World Smaller Companies	-3.24	0.96	-2.47	32.00	6.68	17.22
MSCI Emerging Markets	3.23	7.72	4.05	33.84	8.17	18.85
MSCI AC Asia ex Japan	2.78	7.24	3.60	46.25	18.20	29.87
S&P500	-3.24	0.96	-2.47	39.79	12.98	24.14
MSCI EMU	-1.35	2.93	-0.57	18.30	-4.39	5.06
FTSE Europe ex UK	-0.78	3.53	0.01	20.51	-2.60	7.02
FTSE All-Share	2.22	6.66	3.03	21.04	-2.18	7.48
TOPIX*	-0.86	3.44	-0.08	47.43	19.15	30.92

Government bonds	1 month			12 months		
	EUR	USD	GBP	EUR	USD	GBP
JPM GBI US All Mats	-4.77	-0.63	-4.01	29.78	4.89	15.25
JPM GBI UK All Mats	-3.01	1.20	-2.24	25.40	1.34	11.35
JPM GBI Japan All Mats**	-3.62	0.57	-2.85	9.41	-11.58	-2.84
JPM GBI Germany All Mats	-1.41	2.87	-0.63	9.36	-11.62	-2.89
Corporate bonds	EUR	USD	GBP	EUR	USD	GBP
BofA ML Global Broad Market Corporate	-3.40	0.80	-2.63	22.07	-1.34	8.40
BofA ML US Corporate Master	-4.67	-0.53	-3.92	29.89	4.97	15.34
BofA ML EMU Corporate ex T1 (5-10Y)	-0.68	3.63	0.11	8.16	-12.59	-3.95
BofA ML £ Non-Gilts	-2.67	1.56	-1.90	23.74	0.01	9.88
Non-investment grade bonds	EUR	USD	GBP	EUR	USD	GBP
BofA ML Global High Yield	-1.75	2.51	-0.97	22.43	-1.05	8.72
BofA ML Euro High Yield	0.53	4.89	1.33	4.93	-15.20	-6.82

Source: DataStream. Local currency returns in April 2015: \*3.22% \*\*0.35%. Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.

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