Weekly Market Comment

30 June 2017

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Source: Morningstar – 30 June 2017

Return of the Taper Tantrum?

In almost perfect alignment with the turn of the British summer weather, capital markets turned distinctly soggy over the past week. This, however, can for once not be blamed on the lately so hapless prime minister, nor Brexit. It is simply the result of disoriented markets and unfortunately quite aligned to what we had expected and feared. Well, that is less the marked fall in bond values, which makes this is a 'market tantrum', rather than just an ordinary stock market correction. Why? Well, it does not occur very often that equity and bond market sell-offs happen at the same time. Usually as one of them falls, the other one rises – hence why the combination of the 2 asset classes lowers overall investment risk in portfolios so effectively.

So, is it what sounds like a cheap Hollywood sequel – the return of the taper tantrum? Back around the same time in 2013, stock and bond markets suffered similarly abrupt, but more severe losses, after the US Federal Reserve's then chair Ben Bernanke announced the central bank's intention to scale back their monetary support program (QE). On the back of currently very similar improvements in the European economic outlook, the Eurozone's chief central banker last week made known that he expected the era of 'easy money' to also (finally) come to an end in Europe. The UK's Mark Carney likewise suddenly mentioned the possibility of rate rises, while the US Fed chair Janet Yellen reiterated their intention to continue with their gradual rate rises.

It would be wrong to assume markets were not expecting tightening monetary conditions in the foreseeable future and so the reason for them being spooked is, just as back in 2013, the fear that central banks may be acting hasty and thereby commit a policy error over the shorter term. This is because against the backdrop of improving economic growth (except for stagnating Britain), there are various early indicators that suggest that there may be another growth-blip over the summer and autumn. Tighter monetary policy would be the wrong policy and stagflation the unenviable result.

We have concluded that markets are, like in 2013, overreacting because they are trading at extended valuations and everybody is aware of it. As we discuss in one of the articles in the main document this week, the seemingly concerted 'miscommunication' by the central bankers may well have been a test-balloon to assess by how much they can get the markets to increase the cost of credit yields themselves without the central banks then actually having to raise rates or change their existing QE tapering plans. We suspect the bond markets will see the ruse fairly quickly and stabilise, while equity markets will continue to focus on further economic data flow, to assess by how much the expected growth blip may dent their corporate earnings expectations. We therefore expect equity markets to remain volatile.

In other news over the past week, the UK's financial regulator, the FCA, published its much-awaited report on the efficiency of the market for investment management services. Very close to our own door, we were intrigued whether the regulator's view matches our own observations from years of fund research. We found that we share their findings about how complex it is for retail investors to assess the return quality and value for money of individual investment options and very much welcome their initiatives to introduce information standardisation. This should reduce the effort we have to spend on tedious data cleansing and allow us to focus more on qualitative returns research and price negotiations – both areas, identified by the FCA as crucial catalysts for more effectively functioning markets.

Competing for funds: the FCA's investigation into asset management

The EU's competition commissioner grabbed all the headlines this week, after fining Google €2.4bn for abusing its dominance of the search engine "market". However, a competition report by the UK's FCA (Financial Conduct Authority), which attracted far fewer headlines, could be of more significance to capital markets and investors in the UK. The UK asset management industry has ~£7tn (that's £7,000,000,000,000 or over 2.5 times the UK 's annual GDP) of assets under management (including ~£3tn of pension and institutional funds).

Tatton is a keen advocate of competition policy; we believe companies across all sectors need to be exposed to vigorous competition. This holds for financial products and services as much as it does for traditional product markets. Weak competition would mean fewer choices, higher prices, lower productivity and potentially a less efficient and vibrant investment market.

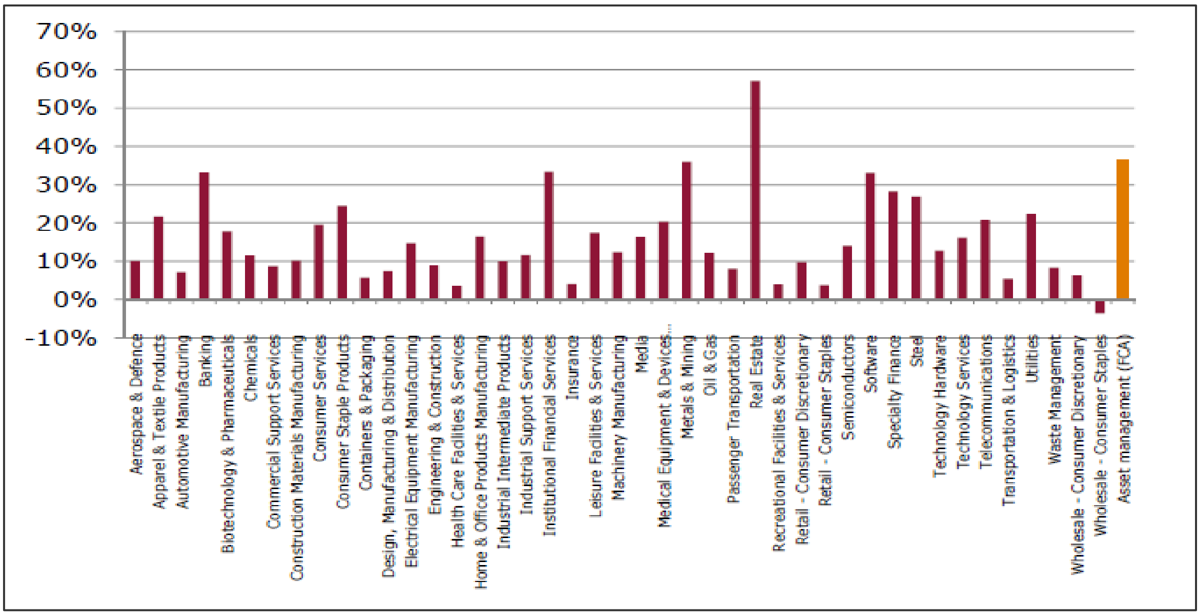
We are therefore encouraged by the FCA's investigation into the asset management market. After all, the FCA is tasked with ensuring that capital markets - for which it is responsible - function well. To achieve this, the FCA has three objectives: to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system, and to promote effective competition.

The FCA's investigation into asset management, which started in November 2015, expressed concerns about the effectiveness of competition in the asset management sector, suggesting there was weak price competition in a number of areas. This included price 'clustering' on the asset management charge for retail funds, and active charges that have remained broadly stable over the last 10 years.

The FCA also raised concerns around the investment performance the industry generates for its clients. The FCA's report indicates that, on average, actively managed and passively managed funds did not outperform their own benchmarks after fees (retail and institutional investors). Moreover, the FCA's analysis suggests that there is no clear relationship between charges and the gross performance of retail active funds, and there is some evidence of a negative relationship between net returns and charges.

Perhaps most damning from a competition perspective is the relative and absolute profitability of the sector (see below, Source: FCA, June 2017). In a competitive market, prices will reflect some measure of marginal cost(s) plus a reasonable profit margin (over a reasonable period of time). Whereas, in less competitive markets, prices tend to be in excess of cost – over a sustained period – resulting in higher profit margins consistently above the cost of capital. The FCA's investigation found high levels of profitability for the sector, with average profit margins of 36% (In the chart below, yellow bar on the right-hand side for the firms sampled by the FCA).

Operating profit margins by industry (over 10 years) - 2006 to 2016

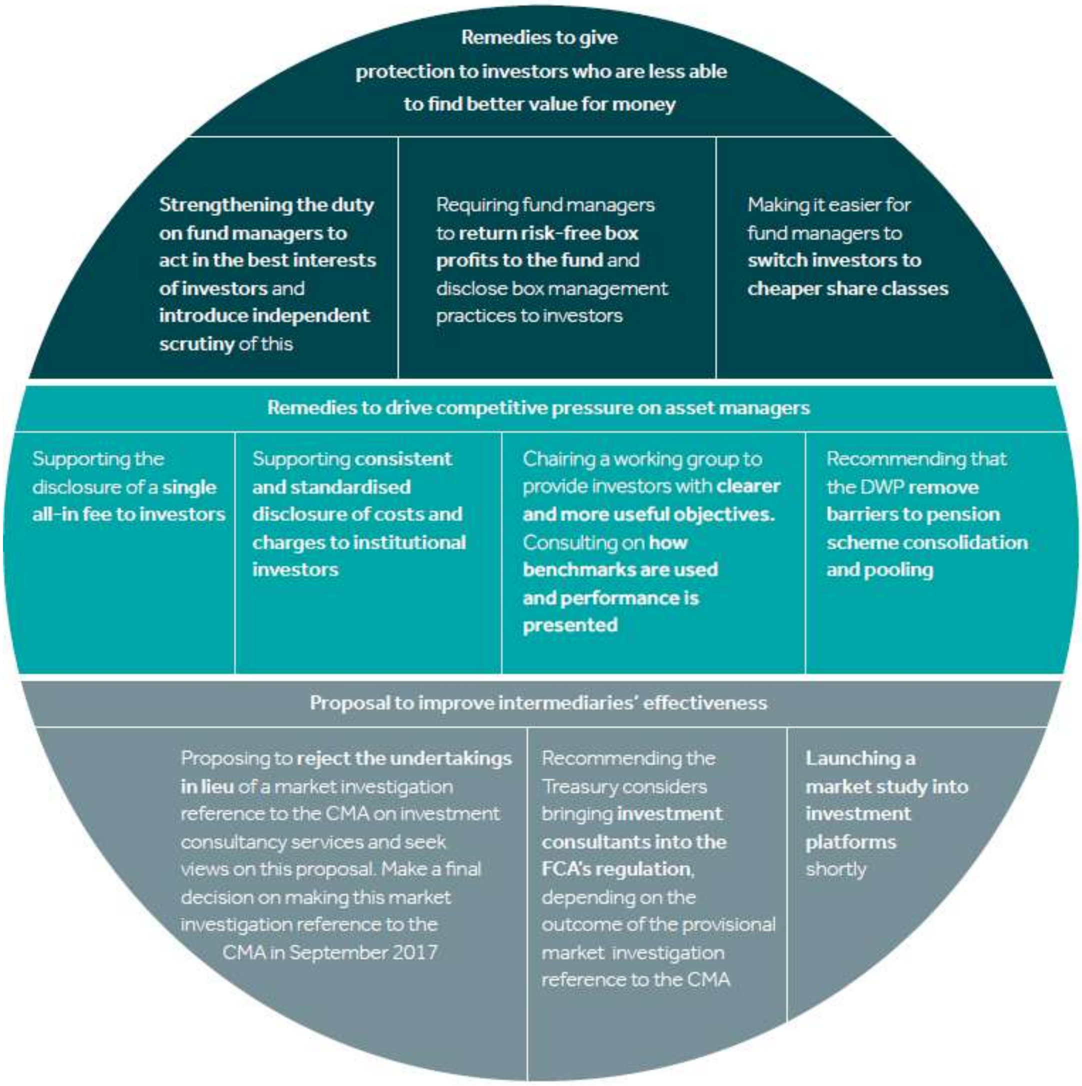


Source: FCA – Asset Management Market Study Final Report – June 2017

The FCA also found that investors are not always clear what the objectives of funds are (and investors' awareness and focus on charges is mixed and poor), and that fund performance is not always reported against an appropriate benchmark. Finally, the FCA were very concerned about the way the market of investment consultants for the institutional investors (large pension plans etc.) operates. This, they stated, was evidenced by relatively high and stable market shares for the 3 largest providers, a weak demand side, relatively low switching levels and potential conflicts of interest.

As expected, the FCA is proposing a wide range of remedies to address the competition issues it has identified in the industry. While the implementation of the FCA's remedies will take place in stages, some do not require consultation and are being taken forward now. The illustration below provides a summary of the FCA's proposals and the associated timeline – in dark blue, regulation changes with immediate effect; in light blue, intended regulation on which further consolation is required; and in grey, further planned actions and initiatives.

Summary of the FCA's proposed remedies



Source: FCA – Asset Management Market Study Final Report – June 2017

The FCA's report has wide ranging implications for the asset management industry, and we will be closely following the FCA's programme, not least the market study into direct-to-consumer and adviser-led investment platforms. The FCA's study will examine whether platforms enable retail investors to access products that offer 'value for money', and assess what can be done to enhance competition between platforms.

Notwithstanding our general support for the FCA's programme of work, we do have some initial reservations about the FCA's analysis. While information transparency is a key component of efficient and competitive markets, this should not result in a homogenous solution, as per the FCA's suggestion that all retail investors be offered a common all-in-fee.

Similarly, standardising the form of cost and charges disclosure (and other metrics), will likely encourage an even more standardised product offer. This may result in even greater price clustering. In any event, we note that price clustering is not bad *per se* and is a (competitive) feature in many other markets (automobiles, white goods etc.).

We recognise the FCA's desire to stimulate competition, but it must also take further account of the fundamental characteristic of certain financial products. Asset managers do not produce or sell a tangible or consumable product, but a potential future income stream. As such, information will never be perfect, and value for money is a difficult concept to apply to outcomes that lie far in the future and are partially or wholly outside the asset manager's control. We are also slightly puzzled by the reported finding, as quoted above, that all asset managers in aggregate do not outperform the markets, but underperform the markets by their fees. This is a well-established capital market 'law', given all investors in aggregate are the market!

We agree that the most fundamental obligation of any asset manager must be to act in the best interests of their clients – the industry refers to this as its fiduciary responsibility. In cases where the FCA find that this high principle is systematically disregarded, then the creation of more senior management accountability, and a more measurable link between 'value for money', scheme, performance and fees, may be advisable. This is certainly the case for passive managers who might simply follow indices, but essentially free-ride on the activities of actively managed funds, without whom there would be no price differentiation between profitable/unprofitable and risky/less risky companies.

However, all of the FCA's proposals will be dependent upon the behaviours of the demand side. Unless it can be ensured that consumers and advisers have strong incentives to inform themselves, are able to track performance and, if needed, switch providers, there is little market-driven incentive for asset managers to improve their pricing or their performance.

As an investment management firm with professional fund researchers, we would agree with the FCA's observation that fund managers have oftentimes kept their charges unchanged, even when technology advances or regulation-driven reductions in their distribution expenses have lowered their overall cost base.

We believe that the best remedy for a better functioning of the market in asset management services is to educate the wider public from school age to better understand and take a greater interest in their own financial affairs. Only when investment product providers' fee-paying clients start 'voting with their feet' will they display truly competitive behaviours. It is only too human for inertia to reign when revenues continue to flow regardless of service levels.

We would also argue that investment fund selection focused asset managers like ourselves fulfil exactly the role and purpose that the regulator has found to promote a more competitive landscape. We constantly monitor value for money of the managers we have selected for our investment portfolios and we use our market insights and purchasing power to rigorously negotiate competitive prices with investment managers. The potential issue about such a secondary investment research function is that it potentially loads cost onto cost, and thus does not overall reduce overall charges for private investors.

From this perspective, we welcome the FCA's report and catalogue of actions even more, because a higher level of standardised information will help to keep our own research costs down. This, in turn, should allow us to continue offering our services at a price which we believe is one of the lowest in the market, while being able to cover an even wider spectrum of the available investment universe with truly qualitative research efforts rather than resource wasting fact finds.

We would therefore argue that, rather than aiming for price regulation and demanding (even theoretically impossible) collective market outperformance by the entire industry, the FCA may want to consider encouraging those second tier investment managers who constitute effective market forces and do their bidding towards better functioning markets in asset management services. This, of course, should only be done as long as those investment selection services make overall prices competitive. That is, as long as they're still worth it.

India's most audacious reform yet - taxes

An ambitious spirit of reform is currently gripping India, as Prime Minister Narendra Modi looks to drive forward his government's far-reaching changes to the country's monetary and fiscal systems. Last November (we reported), the government executed a sudden overnight demonetisation of all 500 and 1000 rupee notes (roughly £6 and £12 respectively), in an attempt to curtail India's large shadow economy, stop the cash-flow to illegal activities and promote electronic over cash payment systems. In the process, they initially scrapped 86% of the country's cash.

Despite the gall of the move, it seemed to be far less disruptive to the economy than many western observers had feared, receiving support from several domestic bankers and even some international commentators. Since then, analysts have concluded that the demonetarisation hampered GDP growth over the first three months of this year, with India's Q1 year-on-year growth its slowest in two years at 6.1%(!). To put that latest figure into context, economists' expectations were 7.1%, after a similar 7% growth figure in Q4 2016. The demonetisation also led to widespread protests and strikes in the ensuing months, with many criticising the sudden nature of reform and the chaos it caused.

Now, India's reform minded government is on the move again as it is about to undergo one of the biggest and most wide-reaching tax reforms in the history of man. This weekend, the Goods and Services Tax (GST) that Modi has been trying to push through will come into force, subsuming and replacing the current 17 different state and federal levies on sales.

The move will revolutionise the way India does its taxes. Currently, any business looking to make trades across state borders sees their transactions hit with a myriad of state and federal level taxes, including entry tax, turnover tax, service, excise and octroi (a tax levied on any goods entering an area). Octroi in particular puts a massive barrier on cross-border trade, with trucks sometimes held for up to 15 hours at the border when driving from Dehli to Mumbai. This also places unwieldy power in the hands of border officials, which has bred immense corruption among the country's middlemen – whose negotiated bribes are a drain on productive capital.

The new system would see the many-levelled system replaced with a destination-based tax, where the last state officials in the supply chain will be the ones who receive the money. Hopefully, this will be of great benefit to consumers, who will see only the GST imposed by their state of purchase, and not nested taxes along every stage.

GST isn't quite a single unified tax on goods, but it's close. Certain goods, such as certain fuels, will be exempt from the system, while other goods such as precious stones and gold will see special rates outside of the standard range. The concessions and exemptions are a sign of the reform's 10-year battle to see daylight. India's fractured political power structure has meant that a great deal of bargaining has been necessary for powerful states and political parties to surrender their individual charges. There will be seven different rates under the new system: 0%, 5%, 12%, 18%, 28% on standard goods and special rates of 3% and 0.25% on gold and precious stones respectively. State authorities will have the same jurisdiction over levies as the federal government, and companies will have to file three separate tax returns per month in each state they do business.

Nevertheless, the reform undoubtedly throws off some of the shackles of cross-state trade in India. At the moment, 60% of transit time for lorry drivers is spent at road blocks, tolls and stoppages. Doing business will be dramatically easier, with some economists predicting that growth could see as much as a 2% boost from the reform, while a 2014 world bank report predicted that logistics costs could fall up to 40%. The unprecedented pooling of sovereignty from 29 states and 7 union territories in India will create a common market of 1.3 billion people, more than the US, EU, Japan, Brazil and Mexico combined.

The benefits of such a system are obvious enough. Reduced tax confusion and logistical efficiencies will be passed onto consumers, increased competition across the entire country will help businesses scale and the simplification of taxes (and reduced interference by corrupt border officials) will incentivise more businesses to comply with tax law. At the moment, tax evasion is a huge problem in the country, with India's tax-to-GDP ratio among the lowest in the world at 18%.

The reform is not without risks, however. While there is widespread agreement among businesses that the current system is a mess, the switch will be painful. "In the initial months, there may be utter confusion," said Ashok Malhorta, a chairman of a local chapter of the Indian Industries Association. Reuters reported anecdotal evidence that small business owners are terrified of the complexities of the new laws, to the point that they are considering shutting down temporarily to give themselves time to adjust. While the online tax returns should in the long run prove much simpler than the current system of ledgers and multiple cash-in-hand transfers, it will doubtless be daunting for many business owners unfamiliar with technology. "We will have to hire an accountant - and get a computer," says Pankaj Jain, owner of a tiny textiles company, according to Reuters.

There are fears that the tax reform, because it's so sudden, could be as destabilising as November's demonetisation. It's likely that smaller businesses will be hit the hardest, unprepared for the changes compared to the larger corporations who have the resources to devote to administrative issues. Disrupting events like this can cause a great deal of pain for those unable to quickly adapt, particularly in the absence of any government initiatives or funding to help them through the transition. The sheer number of tax returns needed to be filled out will alone cause major headaches for small businesses, and the knock-on effect this could have on wider business sentiment could have major unforeseen consequences. "I am scared that if industry sentiment falls after this, India will see a lot of job losses, people will stop purchasing and the economy will slow down," said deputy chief minister of Delhi Manish Sisodia on the matter.

There is no question, however, that the reforms are needed. As with Modi's demonetisation, the audacious Prime Minister is pushing forward the modernisation of India's economy in order to unleash the potential of the world's second most populous nation. It's not just tax simplification and reduced illegal activity that will be achieved with his two reforms, but also a move to a digital platform, which will bring greater efficiency in the long run. The only question is whether the reforms are too much too soon for a population which is still very reliant on physical currency and records.

The uneven mess of different taxes and regulations in India – and the fractured political system of which it's a symptom – has long held back the country's potential to be a major economic player on the world stage. Compare the situation with China, where the massively centralised administrative system (which was propelled forward by the communists' ascension to power but predates it by some 3000 years) has allowed them to rapidly modernise their infrastructure and utilise their 1.4 billion population for sustained, (until recently) labour-intensive economic growth. As such, most economists predict they will overtake the US as the world's largest economy within the next 10-15 years. India aren't aiming at that level of centralisation (nor would their citizens presumably want it), but the government clearly wants a more unified monetary and fiscal framework in order to establish a similarly solid economic framework as China already had, to then be able to embark for effectively in addressing the structural and infrastructural barriers to growth.

In terms of long-term economic and thus investment opportunity, the reform can only be a good thing. Once the dust has settled from Modi's latest bombshell, the growth potential from a modernised single market the size of India could be enormous. We are encouraged by the economic resilience of the demonetarisation reform and, with any luck, the pain likely to be felt by India's small businesses and poorer population through the tax reform will be offset by both the reduced costs of goods and the inevitable inward investment that the reforms will bring. Fortune, as they say, favours the bold, and they don't come much bolder than Modi.

Concerted central banker mis-speak?

The heads of the central banks of Europe, the US and the UK caused some confusion in markets this week, on what investors may have viewed as a 'hawkish' shift towards tighter monetary policy. The market reaction, particularly in bonds, reminded investors of the 'taper tantrum' of 2013. Back then, US central bank chair Ben Bernanke decided to taper further liquidity, expanding bond purchases (QE) and causing a rare simultaneous negative reaction in both equity and bond markets.

Mark Carney, governor of the Bank of England (BoE) and Mario Draghi, European Central Bank (ECB) President, appeared to struggle to effectively communicate on the timing and methods of how they would start the process of withdrawing extra-ordinary monetary stimulus polices in the form of QE and ultra-low interest rates. These had been put in place in the wake of the global financial crisis to prevent the ensuing global recession from mushrooming into a global depression – as had happened under similar circumstances in the 1930s – but were never expected to still be in place almost a decade later!

US Fed chair Janet Yellen seemed to confirm the idea that the US central bank is intent on gradually normalising monetary policy, even in the face of more muted inflation developments, which some interpreted as perhaps the beginning of a fear that low rates may cause more damage to the financial system and the economy than low inflation. It may also suggest that the market-based rate expectations are wrong in assuming a much slower path of future yield rises than the Fed is publishing itself.

Yellen sowed more investor nervousness around higher interest rates when she said that "we have been in an economy with low interest rates for some time, and that influences asset prices... Asset valuations are somewhat rich by traditional valuations like price-earnings ratios... Some asset valuations look high. There is no certainty about that."

The effects of these 'miscommunications' were most visible in the currency and fixed income markets. The Euro immediately jumped to a 52-week high, dropping a whole cent versus the US dollar. The Pound gained 1.2%, to just shy of $1.30 against the dollar. In bonds, 2-yr UK Gilt yields jumped to the highest level of 0.25% and the 10-yr gained 10 basis points to 1.12%.

German Bund yields also jumped on Draghi's comments on Wednesday that "the threat of deflation is gone and reflationary forces are at play". He was also optimistic on growth, which looks to be above trend. Investors may have viewed these comments from the ECB as an indication that it was considering tapering its asset purchase programme earlier than generally anticipated.

Draghi's earlier dovish statement on Monday appeared at odds with the later hawkish tone, when he said that low interest rates created jobs and fostered growth - essentially rejecting calls to end its QE programme more quickly.

In the UK, Mr Carney said he was prepared to increase interest rates, if readings of domestic business activity continued to rise, and inflationary pressures proved more sustained. The problem for markets is that Carney said the complete opposite last week, noting that "now is not yet the time" to raise interest rates.

Yellen, Draghi and Carney's conflicting and (perhaps for investors) 'shocking' comments come as global equity markets are sitting close to all-time highs. There is the old adage "don't fight the Fed", but when the Fed says "high asset prices may lead to future stability risks", does that suggest that risk asset markets have reached a near-term top, because the Fed may intervene to prevent further rises?

While it is possible that markets could experience a correction, the global economic backdrop remains robust and systemic risks to the financial system that central bankers have highlighted this week look relatively well contained.

Indeed, this week we saw the BoE's updated Financial Stability report, taking additional cautionary measures by increasing the Counter Cyclical Buffer (CCyB). The CCyB aims to provide financial firms an increased pot of money or capital to protect the banking sector from periods of excessive growth in credit/debt, which are normally associated with higher systemic risks in the wider financial system.

Over in the US, banks look to be in good shape, with all 34 major banks passing the Fed’s stress tests. US banks appear particularly strong and, as a result, decided to return about $100 billion in capital to shareholders through buybacks and dividends. Not the sort of move one might expect if risks are rising.

We believe that this week’s moves merely highlight the fact that markets have a heightened sensitivity to the idea that a number of central banks are – appropriately and perhaps even belatedly, as some suggest – reassessing the continued need for emergency policy accommodation, when the economy is running at a fair speed again. In other words, investors are nervous that central banks might be behind the curve and will need to react more aggressively on monetary policy in order to prevent inflation rising more than currently anticipated.

We do not think central banks have said anything ‘new’ this week. If the muted or mini ‘taper tantrum’ seen in markets are a guide, then investors seem to anticipate higher rates in the medium term, but are unsure about the timing and extent, while accepting that equity valuations are uncomfortably high. This could herald a period of heightened volatility, as central banks continue to get on with the job of “getting back to work”, while investors eye the impact of their actions on the economy very nervously.

The fact that central bankers appeared to walk back from what was perceived as ‘hawkish’ (monetary tightening) comments would suggest that their task of communicating effectively with investors is far from over. Indeed, it suggests to us that ‘central banker speak’ is currently more effective than ever in enticing capital markets into pushing up the cost of credit (the yield curve) themselves, thus allowing the central banks to take far more gradual steps which would be good for the economy. Perhaps what we saw over the past week was a coordinated test by central bankers to see by how much they may be able to reign in capital markets without actually having to tighten monetary conditions any more than they had planned all along.

Italian road to recovery via an old-school bank bailout?

As Italy prepares for the annual influx of tourists during the summer season, the worries over its banks – and the economy in their wake – may be dampened by busy beach resorts and glorious sunshine. But, that doesn’t mean they are forgotten. A prominent focus for politicians is economic growth and the “North-South divide”, with the northern regions of Italy, more specifically Lombardy, Piedmont and Emilia-Romagna, all receiving similar foreign direct investment (FDI) as other wealthy European nations and, likewise, continuing to produce higher output. However, the south remains significantly behind, as reflected in the fact that Italy still ranks last in the survey’s list of top 20 European FDI destinations by jobs created. The southern regions are home to more than one-third of Italians but generate less than a quarter of GDP and have received less than a tenth of total investment in the country since 2009. To illustrate the point, only two foreign companies have opened hotels in southern Italy since 2009. Information published by the World bank supports the reasoning for the lack of investment. The World Bank’s “Doing Business” indicators for 2016 show that it takes Italy’s public sector an average of 1,120 days to enforce contracts in commercial disputes, 227 days to issue construction permits and 124 days to connect businesses to electricity – all significantly longer than the OECD average.

Even with such statistics investor optimism may be on the rise, but why?

Business confidence is near an all-time high, retail sales have positively surprised and GDP growth of 1.2% year-on-year means Italy is growing at its fastest rate since 2011. According to Ernst & Young (EY), investment projects in Italy rose by 62 per cent last year, the biggest increase among large EU economies. The rise corresponds to a 92 per cent increase in jobs created and consequently this generates investor optimism.

As an investor, a major criticism of Italy has always surrounded speed of reform, more specifically parliamentary reforms and the governmental structure. Very recently, a proposed new law would introduce a proportional voting system whereby fringe groups that get under 5 percent of votes would be excluded from parliament, a copy of the German parliamentary system, in theory leading to less political fragmentation. This could potentially support the remit set out by Renzi in his term, driving positive reforms in the Labour market.

On the issue of the looming bad loans bank crisis, this week, Italy's political leaders took the opportunity of the improved economic climate to move forward as well. As we reported before, Italy's particular problem with the new Eurozone bail-in rules of bank bond holders - instead of tax payers - is that large numbers of the bond holders are not institutions, but pensioners and other small savers. Retail bond holders are far harder to influence and appease than institutional investors, and there was a well-founded fear that setting the example of a bail-in of retail bond holders of a single regional bank could indeed lead to a widespread bank run of retail bond holders across the entire Italian banking sector.

The European Central Bank (ECB) had opened the back door for Italy to apply the old school approach of bank bail outs underwritten by the tax payer, after decreeing that the small regional banks in questions were too small to pose a systemic risk for the Eurozone's financial system. This ruling returned authority for dealing with the issue of failing bank to the domestic government.

Thus, Veneto Banca and Banca Popolare di Vincenza where bailed out at in the traditional approach, at a cost of €17bn, €5bn of which comes from the Italian tax-payer. Italy had prepared well for such scenarios by putting money aside to support the process. Spain, which just applied the stricter rules via a bail-in to its Banco Popular, and Germany, who pushed through the new rules, were not impressed. However, markets did not care and bank stocks as well as bonds rose. The many voices proclaiming the end of Italy's banking crisis even lead to a short equity market rally across all of Europe.

The main risk to Italian momentum after this episode returns to politics and specifically the potential for another election in September 2017. This was expected following Renzi's resignation in November 2016, but it may slow the continued development and progress the Government is making by undertaking the economic and social reforms. Events such as the banking bailout are likely to be hot topics over the summer, which may lead to short-term public perception headaches. However, if economic growth continues to gain momentum, unemployment gradually falls and financial stability improves, Italy may finally be able to pass on its 'sick man of Europe' mantle to a different nation.

PERSONAL FINANCE COMPASS

Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	7312.7	-1.3	-100.2	↘
FTSE 250	19331.7	-1.8	-353.4	↘
FTSE AS	4006.4	-1.4	-57.2	↘
FTSE Small	5574.0	-0.9	-48.8	↘
CAC	5139.2	-2.4	-126.9	↗
DAX	12367.0	-2.9	-366.4	↘
Dow	21326.0	-0.3	-68.7	↗
S&P 500	2425.1	-0.5	-13.3	↗
Nasdaq	5651.7	-2.6	-151.4	↗
Nikkei	20033.4	-0.5	-99.2	↗

Top 5 Gainers / Top 5 Losers

COMPANY	%	COMPANY	%
RIO TINTO PLC	6.0	MICRO FOCUS INTERNATIONAL	-8.0
ANGLO AMERICAN PLC	5.4	HIKMA PHARMACEUTICALS	-7.8
STANDARD CHARTERED PLC	5.3	FRESNILLO	-7.2
HSBC HOLDINGS PLC	4.3	POLYMETAL INTERNATIONAL	-6.8
SKY	3.0	COMPASS GROUP	-6.7

Sovereign Default Risk

DEVELOPED	CDS	DEVELOPING	CDS
UK	20.2	Brazil	242.2
US	19.3	Russia	170.5
France	21.8	China	68.9
Germany	14.8	South Korea	52.0
Japan	49.0	South Africa	197.3

Currencies / Commodities

PRICE	LAST	%1W	CMDTY	LAST	%1W
USD/GBP	1.30	2.12	OIL	47.7	4.8
USD/EUR	1.14	1.90	GOLD	1243.1	-1.1
JPY/USD	112.33	-0.93	SILVER	16.6	-0.4
GBP/EUR	0.88	0.17	COPPER	269.8	2.4
JPY/GBP	6.78	0.82	ALUMIN	1915.0	2.4

Fixed Income

GOVT BOND	%YIELD	% 1W	1 W
UK 10-Yr	1.3	21.6	0.22
US 10-Yr	2.3	6.3	0.13
French 10-Yr	0.8	34.8	0.21
German 10-Yr	0.5	84.7	0.22
Japanese 10-Yr	0.1	50.9	0.03

UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.3
2-yr Fixed Rate	1.5
3-yr Fixed Rate	1.5
5-yr Fixed Rate	1.7
Standard Variable	2.0
Nationwide Base Rate	4.2
Halifax Standard Variable	2.3

For any questions, as always, please ask!

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Please note: Data used within the Personal Finance Compass is sourced from Bloomberg and is only valid for the publication date of this document.

The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel