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Flash stats

Q1 2018

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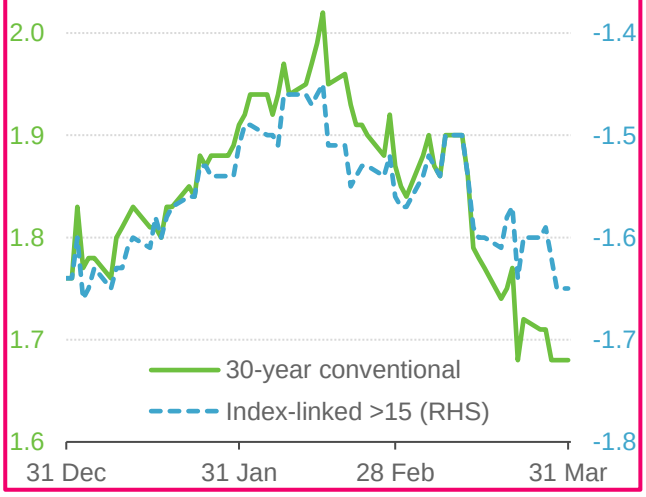
An eventful quarter saw equity markets rise further in January before dipping to their first quarterly fall in two years as concerns about inflation and interest rates were compounded by growing trade tension between the US and China.

Sterling returns (%) to 31 March 2018

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	-4.4	2.9	Gilts (All)	*FTSE*	0.3	0.5
UK	*FTSE 100*	-7.2	0.2	Index-linked (All)	*FTSE*	0.1	0.5
	FTSE All-Share	-6.9	1.2	Corporates (All)	*iBoxx*	-1.5	1.6
US	*S&P 500*	-4.3	1.6	**MODEL UK PENSION FUNDS**			
Japan	*TOPIX*	-2.6	8.3	70% equity		-4.0	1.9
Europe ex UK	*FTSE Dev Europe*	-4.6	4.1	50% equity		-3.1	1.7
Emerging	*FTSE Emerging*	-2.2	8.8	30% equity		-2.2	1.5

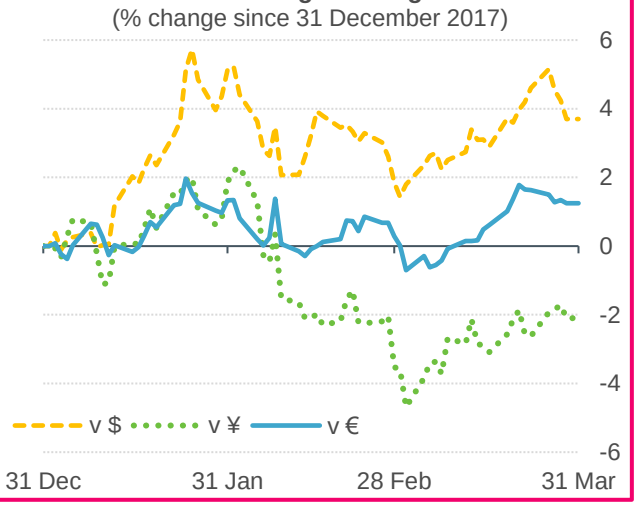
- Q4 economic data confirmed that global growth remained buoyant through to the year-end although the UK continues to lag behind its peers. Japan continued its longest streak of growth since 1989, although initial estimates suggest growth had eased very slightly in Q4, as it had in the US and Eurozone. The UK's Q4 growth was the lowest in the G7.
- Survey evidence suggested that growth remained robust into the new year, although the outlook was clouded at the end of the quarter by early skirmishes in what might develop into a trade war between the US and China.
- Underlying inflation rates remained relatively stable in the major economies, although investors were briefly unsettled by higher-than-expected US wage growth in January.
- The UK saw more evidence that the peak in inflation has passed: CPI inflation fell from 3% to 2.7% in February. Even so, there is speculation that interest rates may rise in May.
- The US Federal Reserve, under a new Chairman, continued to tighten policy gradually raising rates by another 0.25%.
- Global economic momentum and inflation concerns helped to push government bond yields higher at the start of the year. Inflation concerns receded later, particularly outside the US. Long-dated gilt yields fell over the quarter (chart 1), although 10-year yields rose.

Chart 1: Gilt yields (% p.a.)



- Although the yen was the strongest of the major currencies, sterling performed well, rising 2% in trade-weighted terms over the quarter (chart 2).
- Oil prices pushed higher – Brent crude reached a three-year high of $70 a barrel. The impact of rising US production was tempered by declines in Venezuela, the prospect of renewed US sanctions on Iran and strong global demand.
- In contrast, industrial metals prices fell sharply – the main relevant commodity indices were down 7%.
- Buoyant global growth supported credit markets at the start of the year. Yield spreads narrowed further in January, but ended higher over the quarter as a whole as concerns grew about tighter monetary policy and rising trade tension.

Chart 2: Sterling exchange rates
(% change since 31 December 2017)



- Similar factors drove equity returns. Global indices rose strongly in January, but fell over the quarter as a whole. Sterling's strength further reduced returns to UK investors (chart 3).
- The best regional performance came from Emerging Markets, which extended their relative momentum of 2016 and 2017. Sterling's strength contributed to the underperformance of the UK market, because of the significance of foreign earnings.
- Technology remained investors' favourite sector (chart 4), although the current travails of Facebook were putting this position under threat as the quarter closed. The worst performance came from Telecommunications – rising US rates may be undermining what is a preferred area for income investors. Despite the contrasting fortunes of the raw materials, both Oil & Gas and Basic Materials underperformed.
- The turn of the year brought little change for the UK commercial property market. Capital values and rents nudged higher. Once again, this was driven primarily by strong growth in Industrials, although there are some signs that the sector's rental growth may be flagging.

Chart 3: Regional equity returns
FTSE All-World Indices (%)

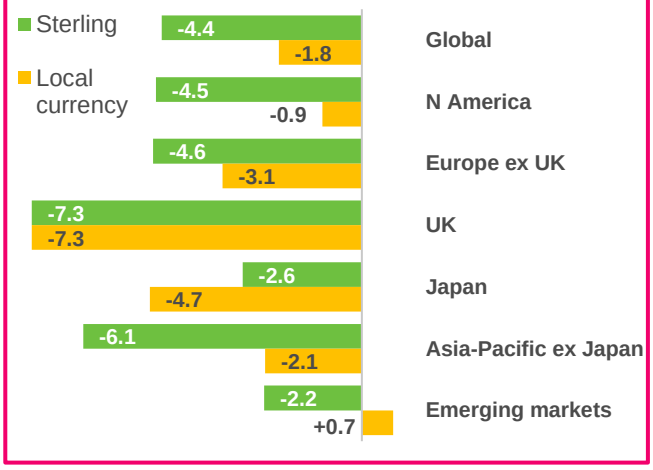


Chart 4: Q1 global sector performance
relative to FTSE All-World Index (%)