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Flash stats

Q2 2017

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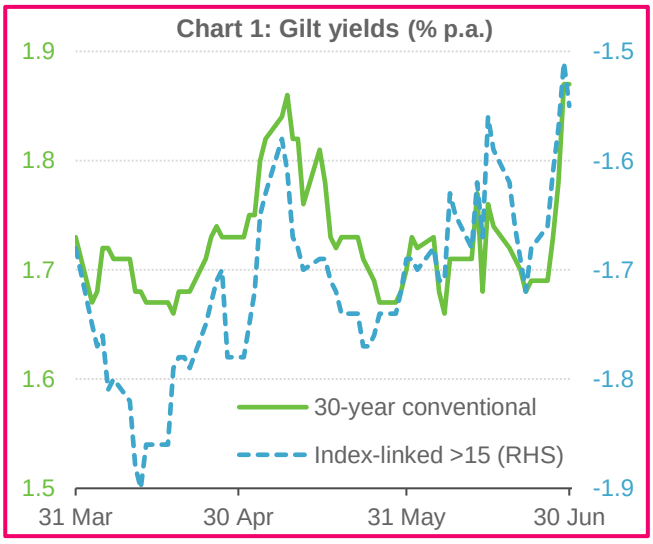
Sterling strength largely offset global equity strength over the quarter. Volatility continues to be low relative to historical averages. Government bond yields ended the quarter higher, while credit spreads tightened further.

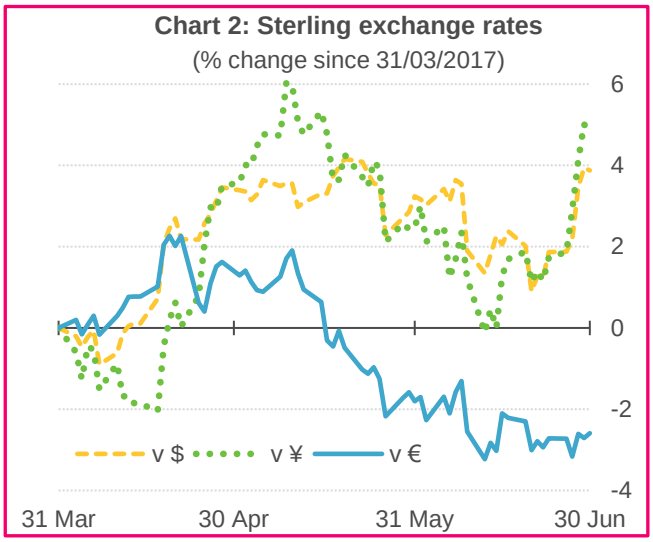
Sterling returns (%) to 30 June 2017

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	0.5	23.0	Gilts (All)	*FTSE*	-1.3	-0.9
UK	*FTSE 100*	1.0	16.9	Index-linked (All)	*FTSE*	-2.3	6.7
	FTSE All-Share	1.4	18.1	Corporates (All)	*iBoxx*	0.8	6.8
US	*S&P 500*	-0.8	21.3	**MODEL UK PENSION FUNDS**			
Japan	*TOPIX*	1.9	24.2	70% equity		0.6	15.8
Europe ex UK	*FTSE Dev Europe*	5.0	29.0	50% equity		0.4	12.4
Emerging	*FTSE Emerging*	0.2	24.1	30% equity		0.3	8.9

- The economic weather followed a similar pattern to Q1. Survey data continued to point to decent momentum in global growth. This was generally reflected in hard data from the Eurozone and Japan, but there were signs that any rebound from disappointing Q1 growth in the UK and US might be subdued.
- The Federal Reserve raised US interest rates again in June, to a range of 1-1.25% p.a., ignoring unexpected weakness in short-term inflation data. They also indicated their intention to start unwinding their QE programme later in the year.
- Headline inflation in the UK continued to rise on the back of last year's fall in sterling. May's UK CPI inflation of 2.9% p.a. was as high as it has been for over five years.
- Despite rising inflation, the BoE has held rates at 0.25% p.a., citing the moderation in pay growth. However, three members of the MPC (out of 8) voted for a rate rise in June, and markets have adjusted to imply a better than evens chance of a rate rise before the end of the year.
- Gilt yields rose over the quarter (chart 1). A rise after the announcement of the election in mid-April had been quickly unwound, but yields rose again at the end of June as investors grew more concerned about the possibility of tighter monetary policy.



- Sterling investment-grade credit markets had another good quarter relative to gilts – yield spreads on AA-rated bonds hit their lowest levels for over 12 years.
- Across global credit markets, lower-rated credit led the gains. In the US corporate credit market, the yield premium on speculative grade BB-rated bonds relative to investment-grade AA-rated bonds is as low as it has been since the early days of the credit crunch.
- Within currency markets, the euro strengthened against the US dollar and the yen (chart 2). Sterling fared relatively well in spite of post-election uncertainties towards the end of the quarter.



- Brent crude fell from $53 to $48 a barrel over the quarter, erasing most of the gains that followed OPEC's announcement of an output cut last November. Increased production in the US continued to offset the impact on global oil supply of OPEC's cut.
- Global equity indices rose over the quarter, establishing new all-time highs in June, while levels of volatility implied by options markets fell to new lows. However, sterling's strength towards the end of June offset earlier gains.
- The best regional performance came from Japan and Europe (chart 3), both perhaps boosted by their robust economic momentum. In addition, the election of Emmanuel Macron as President of France allayed concerns about European political uncertainty. The US struggled against disappointing economic data and failure of the new administration to deliver the tax reforms and infrastructure spending that had encouraged investors in the wake of the Presidential election.
- Global equity sector performance was once again dominated by the weakness of Oil & Gas (chart 4). Outperformance from the Healthcare sector reflected the more general outperformance of growth stocks relative to value stocks – a reversal of the trend of late 2016.
- UK property values continued to edge higher in Q2, but remain a little below pre-referendum levels. The strongest gains are still coming from the industrial sector, where rental growth is also slightly ahead of a modest overall rise.