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Flash stats

Q3 2017

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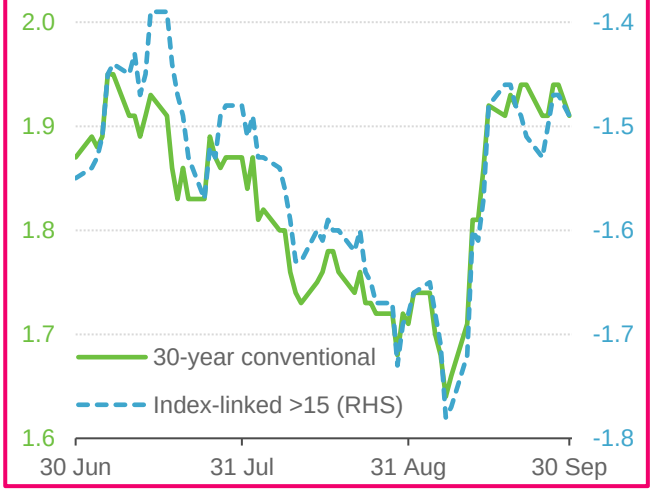
The Bank of England hints at a UK rate rise before the end of the year and the US Federal Reserve starts to unwind its quantitative easing (QE) programme. But positive earnings and economic data push equity markets even higher.

Sterling returns (%) to 30 September 2017

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	1.9	15.5	Gilts (All)	*FTSE*	-0.5	-3.6
UK	*FTSE 100*	1.8	11.2	Index-linked (All)	*FTSE*	-0.7	-3.8
	FTSE All-Share	2.1	11.9	Corporates (All)	*iBoxx*	0.2	0.3
US	*S&P 500*	1.2	14.8	**MODEL UK PENSION FUNDS**			
Japan	*TOPIX*	1.3	12.6	70% equity		1.4	9.5
Europe ex UK	*FTSE Dev Europe*	3.7	22.5	50% equity		1.0	6.4
Emerging	*FTSE Emerging*	4.5	16.5	30% equity		0.6	3.3

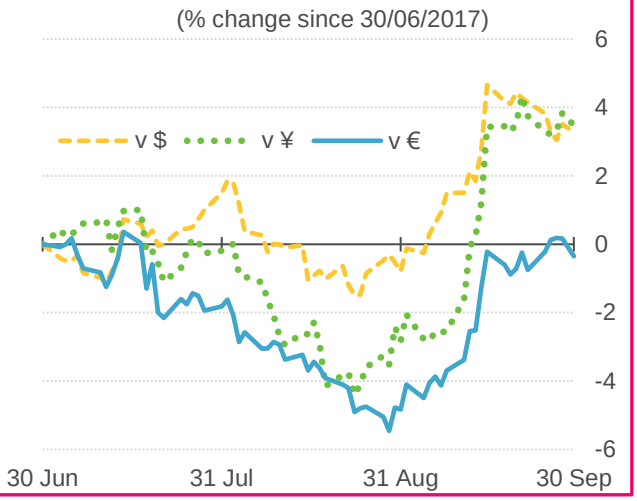
- UK GDP growth of 0.3% in the second quarter surpassed the 0.2% reported in Q1, which, at the time, was the lowest in the 28-country European Union bloc. UK growth was left behind its peers as Japan recorded its best quarterly growth in two years, the Eurozone maintained growth of c.0.6% and the US 'bounced back' to 0.8% after a modest showing in Q1.
- The US Federal Reserve announced its intention to start unwinding its long-standing QE programme; from October onwards, as its holdings of government bonds and mortgage-backed securities mature, it will limit the amount that is reinvested.
- The rise in UK CPI inflation paused at the start of the quarter, before August's number matched May's five-year high of 2.9%.
- Despite above-target inflation, the Bank of England held UK interest rates at 0.25% p.a. However, the Governor indicated after September's Monetary Policy Committee that rates would rise soon unless economic conditions deteriorated.
- The change in interest rate expectations following these comments caused gilt yields to rise sharply in the final weeks of the quarter, reversing what had been a fairly steady decline over the quarter (Chart 1).

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



- Credit markets had an uneventful period, although yield spreads, in general, tightened a little more over the quarter.
- Buoyant economic conditions and a weak US dollar boosted emerging markets. Yields on the major local currency debt indices fell close to their lowest levels for over four years.
- Sterling was under pressure for most of the quarter until markets moved to price in a UK rate rise in 2017. Over the quarter as a whole, sterling was ahead of the yen and US dollar and roughly in line with the euro (Chart 2).
- Oil prices surged – Brent crude rose from $48 a barrel to a two-year high of $59 a barrel. Confidence in supply was hit by weather disruption in the US and political uncertainty in Kurdistan, while demand in Asia was unexpectedly strong.

Chart 2: Sterling exchange rates
(% change since 30/06/2017)



- The series of Atlantic hurricanes and two Mexican earthquakes caused the first noticeable wobble in insurance-linked markets since Superstorm Sandy hit the east coast of the US in October 2012.
- Global equity indices had another strong quarter. Improving corporate earnings and positive economic momentum more than offset growing concerns over equity valuations and rising political tension in the Korean peninsula. The strength of sterling meant that returns to UK investors were more modest.
- The best regional performance, in local currency terms, came from Emerging Markets (Chart 3), in demand for the same reasons as equivalent debt markets. UK equities underperformed again as sterling strengthened.
- Commodity price strength pushed Oil & Gas and Basic Materials to the top of the global equity sector performance table (Chart 4). Defensive stocks – Telecoms, Healthcare, Utilities – lagged the overall market rally.
- UK property values, as measured by the IPD Monthly Index, are now back at pre-referendum levels. Rental growth is showing early signs of a modest upturn, perhaps marking the end of the downturn since the start of 2016. Of the major sectors, industrials continue to show the strongest momentum in both capital values and rents.

Chart 3: Q3 regional equity returns
FTSE All-World Indices (%)

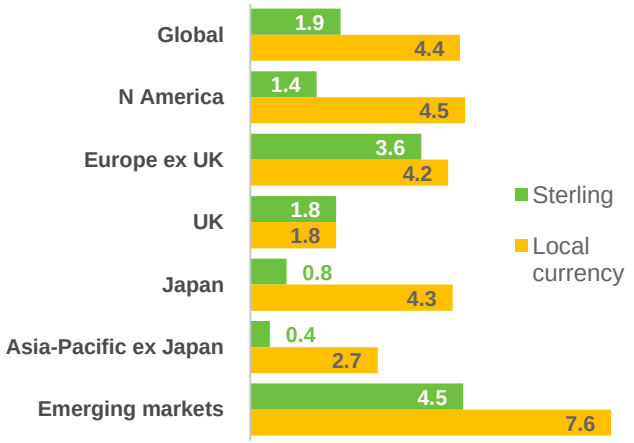


Chart 4: Q3 global sector performance
relative to FTSE All-World Index (%)