THE **CAMBRIDGE** WEEKLY

20 June 2022

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Linchpin oil price

As central banks around the world were busy reasserting their authority and credibility as the guardians of monetary stability, the previous week's stock market wobble turned into a fully-fledged rout last week. The growth concerns that preoccupied investors morphed into fears that central banks have become so determined to stop inflation from embedding itself that they are prepared to accept that proceeding with monetary tightening countermeasures may indeed lead to a global recession.

This must seem extraordinary to the general public, but we should not forget that the pandemic period has been like no other, and offers very little precedent – and therefore no sort of playbook – of how to handle the post-pandemic 'hangover' period. We may have reached the point where the disease is slowly having less and less direct impact on our lives, but we have also now entered the economic period which is all about coming to terms with the 'medicinal' side effects.

We write more in-depth about central banks developments, and what may lay ahead for bond markets over the remainder of 2022, in the articles below.

Individuals, and also our politicians, have become used to central bankers being very effective trouble-shooters. It is they, rather than the political class, that has protected us from the big economic fractures we fear. In the UK, while the Global Financial Crisis and Brexit felt bad, the actions of the Bank of England (BoE) and other central banks kept us away from experience a fate similar to the 1930s depression that followed the crash of 1929.

We will never know what would have happened, had we not had the biggest dose of central bank support ever, to protect us from the economic pain inflicted by the pandemic. However, we can see that the medicine itself, huge monetary injections, has almost certainly contributed to global inflationary pressures in a not insignificant way (the others being the supply chain disruptions, consumers' short-term preference shift for 'things' away from services, and the post-pandemic shortage of labour).

The Federal Open Markets Committee (FOMC), the decision-making body of the US Federal Reserve (Fed) raised rates by 0.75% last Wednesday to 1.5-1.75%. Others also did so – the BoE by 0.25% (to 1.25%), the Swiss by 0.5% to still negative 0.25%, Taiwan by 0.125%, for example.

The Bank of Japan's (BoJ) timetabled meeting produced no change. The European Central Bank (ECB) held an ad-hoc meeting to discuss the consequences for policy of their strong signal that policy rates will be raised. Now that sounds nasty but, in actual fact, compared to the rate rising central banks, ECB and BoJ provided some good news for markets.

It may seem the world's central banks are in a synchronised tightening mode, but that's not the case throughout. Both the BoJ and the People's Bank of China are actually engaged in forms of easing. Last week, the BoJ committed to unlimited bond purchases (effectively new quantitative easing), a stance reiterated at its Friday meeting. Neither Japan nor China engaged in the massive monetary easing of 2020-2021. Indeed, both have had quite anaemic monetary growth over the period. This may well be a factor in why their (and Asian) growth levels had been well below potential, but now they are able to ease policy, rather than having to tighten.

The Asian economies are significant in global growth terms, and we think western markets' fearful disposition rather misses what will probably be a positive beyond their immediate shores. Both have faced cost-push pressures from the cost of oil and gas, which has raised domestic prices, but their inflation levels remain much lower than in the US, UK and Europe.

We talk of central bank credibility in the articles below and, again, there is good news in how the markets had anticipated the Fed's move. While this resulted in major bond volatility in the run up to the rates decision meeting, we make the case that 'long-view' real yields may be reaching a plateau if perhaps not exactly a peak. In the short-term, the fact that central bank guidance is once again working is certainly being read as them having re-established their credibility as the keepers of monetary stability – which can be argued is half the battle won already.

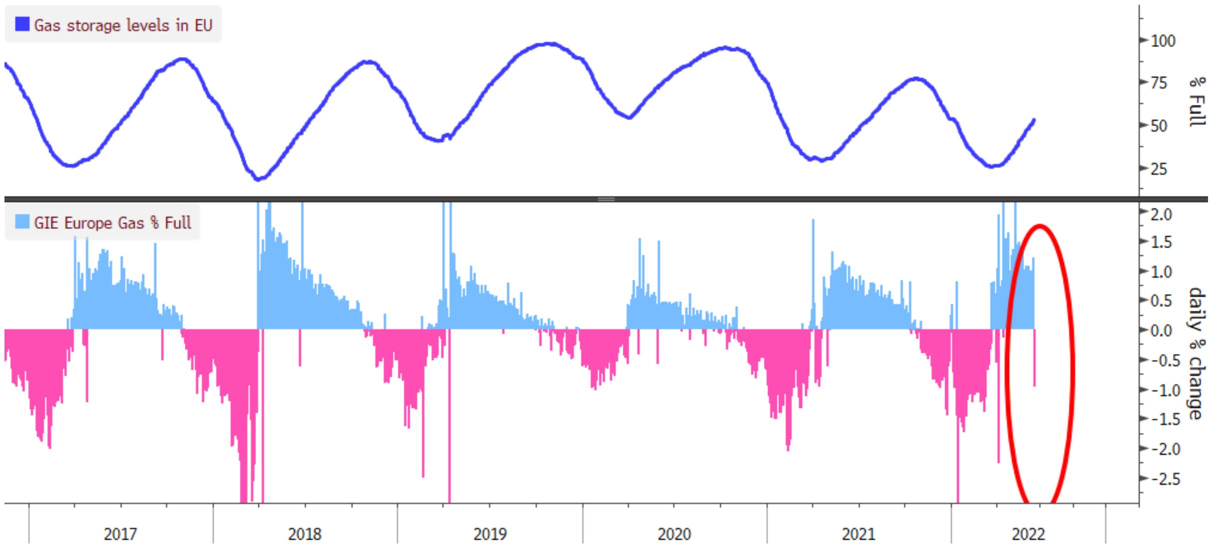
But equity and credit markets will remain at risk of the potential for western central banks having to restrain demand even more, should energy market capacity (supply) continue to be constrained or even shut down. This suggests a notable change in the narrative, as the cost of energy is increasingly the single biggest driver of elevated prices, after supply shortages of goods are increasingly meeting demand levels (we mentioned the developing microchip glut last week).

Similarly, on the pressure points of construction, lumber prices in the US have now been declining for over two months, while other raw material markets have seen a small but marked decline in prices since May. As a result, energy prices remain the weak spot for higher risk assets. Over the course of last week, we have observed an increasing negative correlation between oil prices and stock market movements – as oil prices fell by more than 5% on Friday, equities in western markets had a much-welcomed up day.

Perhaps oil prices are showing some signs of flatlining, as traders factor-in a more pessimistic demand picture from declining economic activity levels. But it's still supply that dominates the nearer-term moves. For Europe, natural gas imports remain one of investors' biggest fears.

Therefore, it was not good news that Gazprom slowed the Nord Stream pipeline flow to less than half of its capacity, ostensibly because of technical 'compressor' problems – which supposedly cannot be replaced because of current trade sanctions. The flows through the pipelines which traverse Ukraine also remain low and the usual build-up of gas storage for the winter heating period has now – conveniently for Russia – been halted, as the chart below shows.

EU natural gas store use
Natgas users tapping storage to replace missing Russia flows



Source: Tatton IM, Bloomberg, GIE Europe: G904
CGIEEUFU Index (GIE Europe Gas % Full) EU gas storage use Daily 17JUN2016-17JUN2022 Copyright© 2022 Bloomberg Finance L.P. 17-Jun-2022 10:45:01

The Russian leadership perhaps detects a softening of Western resolve amid economic pressures and can see their leverage growing. As such, we should be prepared for more tactical pressure, designed to delay the help for Ukraine.

Global economic data is beginning to show signs of weakening (such as last Friday's data for May US industrial production, which showed a slight decline month-on-month). That is leading to renewed worries about equity earnings growth, and analysts are probably in the process of trimming expectations for the second half of the year as well as for this current quarter. However, a large amount of pain has already been taken, in the form of higher long-term rates, wider credit spreads for higher risk corporate loans, and equities trading at a significant discount compared to last year.

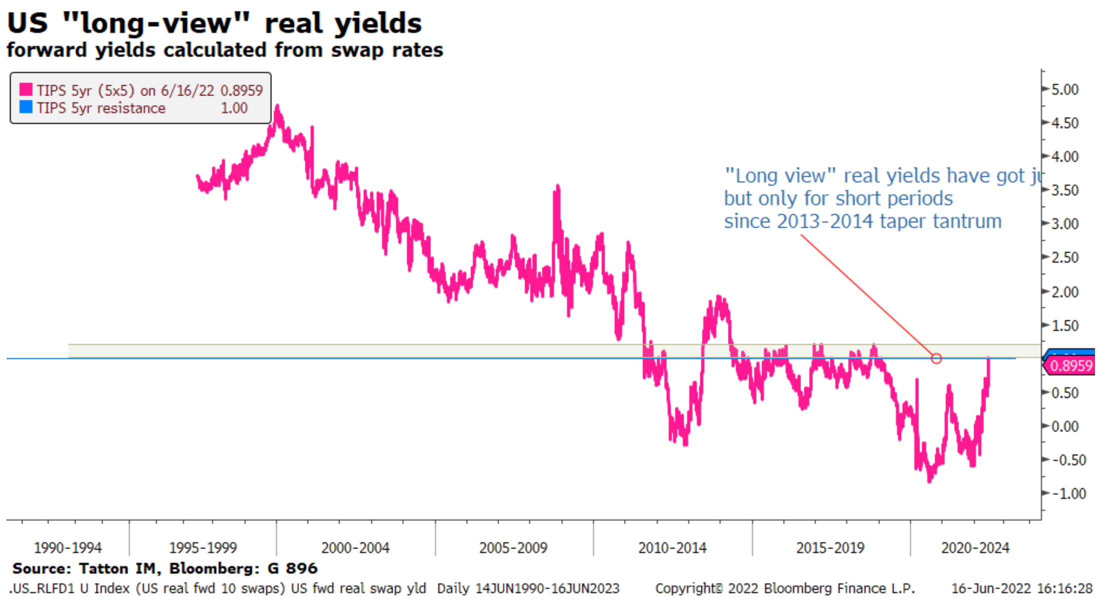
Long maturity bond yields are unlikely to shoot up further in the face of such data, but credit spreads may still be vulnerable to further widening (see also our separate article about the outlook for bonds). On the credit side, cosmetics veteran Revlon filed for Chapter 11 bankruptcy last Tuesday, and such events do not help perceptions of credit stability, even if such incidents are company-specific. Investors may worry about more defaults around the corner, but current corporate distress remains very low, while many companies still have substantial liquidity. Meanwhile, the flow of new corporate bond issuance has not just slowed, it has become a drought, a situation which often leads to quite sharp bounces when the available returns are higher than normal. High corporate bond yields may start to look attractive soon. We think equities may lag any bond rally initially, but the rise in yields has driven the fall in valuations, meaning that potential analyst downgrades could be offset.

Meanwhile analysts have not yet embarked on downgrades. The bottom-up guidance has been mixed, but US earnings per share growth for the next 12 months has been stable around a healthy-ish 6%.

In summary, this tells us that while the previous week's wobble did indeed turn into a rout last week, we continue to see this as part of post-pandemic hangover volatility, rather than the onset of a major shift in the long-term economic outlook. However, what became clearer last week is that should the lack of energy supply continue to cause problems, or get worse, the broader economic outlook may yet get worse before it gets better. On this note, the near 10% drop in oil prices towards the end of last week has been most welcome!

Bond market gyrations

As regular readers will be aware, bond markets have been in flux this year. Yields have risen substantially in most major markets, on the back of rapid inflation and suddenly higher guidance on interest rates from central banks. This has clearly damaged the valuation metrics for equities, shifting up the 'risk free' rate of return and making stocks less attractive by comparison. In a separate article, we cover the latest updates from the world's central banks – all of which will have substantive implications for global bond markets. Here though, we take more of a deep dive into the outlook for bonds and the potential effects of the changes on the economy. Following the substantial pains of 2022 for bond holders so far, will the year continue as it has started?



The short answer is: probably not. The above 30-year chart shows capital markets' implied 'long view' on inflation-adjusted bond yields – where investors expect real yields to be in ten years' time. As the chart shows, the rate has been low and (mostly) stable since a spike in 2013 and the onset of the pandemic. That 2013 spike was the so-called 'taper tantrum', when central banks hinted at an end to quantitative easing and markets sold-off rapidly. Long-view real yields peaked around 2% during that episode, but fell back towards 1% after a bit of teething. The pandemic, meanwhile, sent real yields negative – a move sustained by unprecedented central bank purchases.

Central banks had a part to play in keeping long-yields down, but we suspect the more substantial reasons for the low period that started just after the Global Financial Crisis in 2008/2009 are structural. Over the last decade (13 years, to be accurate), unemployment has been low, but inflation remained subdued as supply outstripped demand, while productivity improvements stagnated. This has kept growth sputtering along without any significant impetus – creating a long-term environment of low rates, given they reflect the rate that essentially keeps the economy fully functional and stable.

Since the pandemic, inflation pressures have become a pressing issue while labour markets have been excruciatingly and unhelpfully tight. An undersupply of workers has led to some notable wage gains in certain sectors – which has been sustained by a decrease in the labour participation rate (particularly in the UK, hammered by the joint pressures of chronic illness and Brexit).

If this continues, it could have a profound impact on labour pricing power – which has been severely constrained since the neoliberal policies of the 1980s. That would likely increase businesses' capital investment (capex), which in turn would increase productivity down the line. That would be a structural move toward higher growth and inflation – meaning long-view real yields would have to adjust higher.

The current bout of global inflation makes it look like we are headed that way, backed up by the recent move higher in long-view yields. However, the latest labour market data in the US have shown a welcome increase - although not to pre-pandemic levels - in labour participation (labour supply/working age population seeking work). And with its aggressive tightening stance, the Fed has shown it is intent on cooling labour demand so that it matches medium-term supply. There is a good chance that labour participation will continue to grow over the medium-term, as consumers run down their savings and are faced with sharply higher costs. In other words, the apparent structural shift in the labour market may prove just to be an artefact of the late-stage pandemic, or at least a mix of the two.

The same could be said about capex. While labour shortages have led businesses to invest more, monetary policy is now set up to reduce capex incentives, as business cases have to pass a higher hurdle rate. The cost of financing has already in 2022 climbed to a higher level than at any point since 2013, and with the threat of a recession looming, businesses are likely to scale back investment plans. Simply put, it is far too early to tell whether there have been any structural changes in the capex and productivity outlook.

We will likely only be able to judge structural changes once interest rates have settled at the so-called 'neutral rate'. By that point, supply shortages are likely to have faded and household savings from the pandemic are likely to be depleted. The supply-demand balance will probably look very different when we get there.

This reasoning applies generally. Central banks set their benchmark rates relative to real growth, severely subdued in the decade following the financial crisis. The pandemic brought an extraordinary injection of emergency liquidity, which created additional demand that acted as an adrenaline shot for the economy. We are dealing with the effects of that now – compounded by severe hiccups in the global supply chain. But we cannot draw long-term conclusions until the adrenaline shot wears off and the supply chain disruptions recede.

There are signs that this is already happening. Rising bond yields have compressed corporate spending power, while personal mortgage rates in the US are nearly at the same level as before the financial crisis. Growth in the money supply has come sharply down, and this will likely subdue inflation in a year or so.

As we note in our other article this week, the lagging nature of inflation could mean that current monetary tightening hampers growth in 2023, rather than 2022. This would worsen any potential recession, and bring real yields down next year.

All of this is to say: long-view real yields have increased significantly, but they are still barely above pre-pandemic levels, and so it is too early to see, and state, that structural factors will lastingly lift real yields to a higher level. Oil prices are a potential structural shift – as long-term sanctions against Russia and CO_2 reduction driven declines in investment in new exploration would mean a significant shakeup for global energy prices. But even that is too early to tell, and has to be balanced against the inevitable long-term decline in fossil fuel demand. The current bout might still be another blip of the post pandemic economic 'hangover' scenario, after which we settle at the real yield levels we were used to before.

Central bank watch

Sometimes it feels like markets are little more than central bank watchers. Thanks to a series of high-profile meetings, and some headline-grabbing policy changes, last week was one of those times. We saw interest rate hikes in the UK and US, an emergency meeting at the European Central Bank (ECB) and some poorly received comments from the Bank of Japan (BoJ) governor.

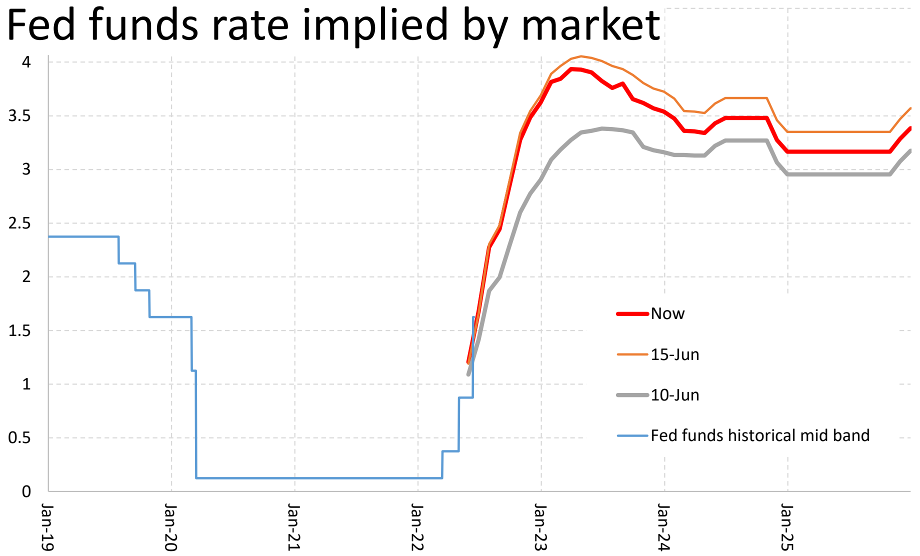
All of these events sent shockwaves through capital markets, albeit to varying degrees. Equities took a dive early last week, while government bond yields spiked (and bond values fell, due to their negative correlation). Regular readers will know that the outlook for bonds is a vital part of any investment plan. And for more than a decade, monetary policy's impact on bond markets seems to have grown continuously. Below we look at the goings on of the world's major central banks, and their effect on bond markets.

US

By far the biggest story of last week was the Fed's decision to raise interest rates by 0.75%, the bank's biggest single increase since 1994. It came after a two-day meeting of the Federal Open Markets Committee (FOMC), where the Fed's rate setters discussed rampant inflation and its effects on people's expectations. Consumer prices in the US jumped significantly more than expected in May, while a report on Friday showed Americans' long-term inflation expectations have risen. Together with the continued tightness in US labour markets, this is a worrying sign, suggesting price rises could become embedded in the economy through the dreaded wage-price spiral dynamic that became the hallmark of the 1970s decade of economic stagnation and decline.

FOMC members are clearly worried by this prospect, especially with the US unemployment rate having held at just 3.6% for the last three months, clearly feeling they must act quickly to avoid the damaging wage-price spiral starting in earnest. Inflation is already at its highest level in 40 years, and the latest data show no sign of that slowing down.

Fed chair Jay Powell told the press he is determined to tame soaring prices, even if that means a hit to growth and jobs. According to the 'dots plot' – a graph of FOMC members' interest rate expectations over the next few years – the Fed will push interest rates well above 3% by the end of the year, with more hikes to come in 2023. This is a far cry from what was telegraphed as recently as at Fed's March meeting, which pencilled in rates of less than 2% by the end of the year. This is a sign of how much the outlook has changed in the last three months alone. "We have to restore price stability" implored Powell; "it is the bedrock of the economy."



Source: Tatton IM, Bloomberg, CBT

Powell maintains that a so-called 'soft landing' that avoids a damaging recession is possible, but investors are increasingly doubtful. It takes a long time for changes in the price of raw materials to filter through to consumer goods or services, making consumer price inflation a lagging indicator. As such, it is likely that headline inflation numbers will remain elevated over the coming months. Since the Fed has made clear it will react aggressively until inflation pressures decline, many economists now expect it to shrink the economy in its bid to get prices under control.

Powell all but admitted this, telling reporters that a soft landing is increasingly difficult due to "many factors that we don't control" (oil prices). This tells us that, even if we see weak growth and a return of rising unemployment in the months ahead, the Fed is unlikely to change course. Only a pullback in inflation – and a sustained one at that – will give the FOMC pause for thought. But as we say, inflation is a lagging indicator of the effects of monetary policy.

It is possible that Fed tightening has already had an impact on future inflation – just one that will take some time to filter through. The somewhat worrying conclusion is that any further Fed tightening might only have an impact next year, at which point inflation is expected to be much lower anyway. In other words, there is a good chance that hiking rates over the next few months will only serve to make a recession – if and when it does happen – worse.

Powell and his team will be well aware of this risk. Unfortunately, central banker policy tools are blunt instruments, rather than precise incisions. With inflation running rampant and expectations becoming embedded, the Fed likely feels it has little option but to engineer a (hopefully short) recession, after which the economy can adjust back to normal. The FOMC cannot openly say this, without risking a destabilising market crash. But the signs all point that way.

The good news is that bond markets have not reacted badly to Fed tightening. Indeed, the calm in bond markets after the Fed's announcement perhaps suggests that investors expect a sharp but manageable slowdown, and that the Fed will indeed do what it takes in the fight against inflation. Credibility – the most important thing for any central bank – has been restored if that is the case. And even if a recession comes in the next year, market resilience suggests the financial system is stable enough to cope with it. There are many risks ahead, but markets seem confident the Fed can handle them.

Europe

If last week's bond moves were a vote of confidence for the Fed, they were anything but for the ECB. Last week's announcement that bond buying will dry up, and interest rates will start climbing, led to sharp sell-offs in parts of Europe's sovereign debt market. Borrowing rates for Italy and Spain shot up to their highest level in eight years on Tuesday, raising fears of another Eurozone crisis. Back then, as now, there was in a dramatically widening premium (spread) between German yields and those of periphery countries. However, that is where the similarities end. The current sell-off of periphery bonds happened in parallel to also higher yield levels in Germany, and this higher spread of the periphery to Germany reflects that yields are – to a large extent – rising for everybody. This is different to a pure sovereign debt crisis, when the reference rate, in this case German bunds, stays largely the same and just the perceived risky asset sell-offs. Unfortunately, however, as yields push up to high levels in the periphery, the question of how these economies will be able to cope with it remains. The uncertainty has rekindled debates about fiscal sustainability in the Eurozone's periphery, and risks unlocking a vicious circle, hence the increased nervousness in peripheral capital markets last week.

In the ECB's emergency meeting last Wednesday, officials made three key announcements: First, they confirmed that the effects of its monetary policy have the potential to cause fragmentation across Eurozone members. This was widely known within markets, but the announcement of it made a strong case for bond market intervention. Second, the ECB explicitly stated its intention to reinvest maturing bonds in a way that prevents spreads widening. And third, it moved up the development of an 'anti-fragmentation' tool, which was previously considered a back-up option.

The ECB's interjection helped stem market fears. Italian ten-year yields quickly dropped back below 4%, and peripheral spreads over German debt came down. The response suggested investors were convinced of the ECB's commitment to avoid a fragmentation crisis – for now. This is crucial, as clarity and credibility on monetary policy intentions can often do much of the job for central bankers. The more markets believe the ECB will get things under control, the less firepower it needs to use in doing so.

This could just be a temporary reprieve, though. Despite the fanfare, the ECB did not commit itself to any firm policy changes. It has told its team of researchers to hurry up in building an anti-fragmentation tool – but offered no timescale for using it. More importantly, we do not know yet which conditions will be attached to the use of the tool, which detracts from the clarity and credibility of the message. Similarly, ECB officials highlighted their flexibility in balance sheet reinvestments – without stating conditions for this form of intervention either. It seems the ECB is moving through a sequence of steps in monetary policy. It tried rhetoric alone, but that did little to allay sovereign debt fears. Now it has outlined a policy response and officials hope that will be enough. If it is not, the next step will be to use that policy response. This could prove to be the hardest part.

There is no doubt the ECB has the tools to contain bond spreads. The issue has always been whether it would be allowed to use them. If proceeds from German and Dutch bond sales are reinvested into Italian, Spanish or even French bonds, the creditworthiness of the former nations is effectively being used to subsidise the latter. This is how monetary and fiscal union across multiple regions works (as in the US between richer and poorer states), but it is an idea of inter- European solidarity which has proved politically toxic many times in the past.

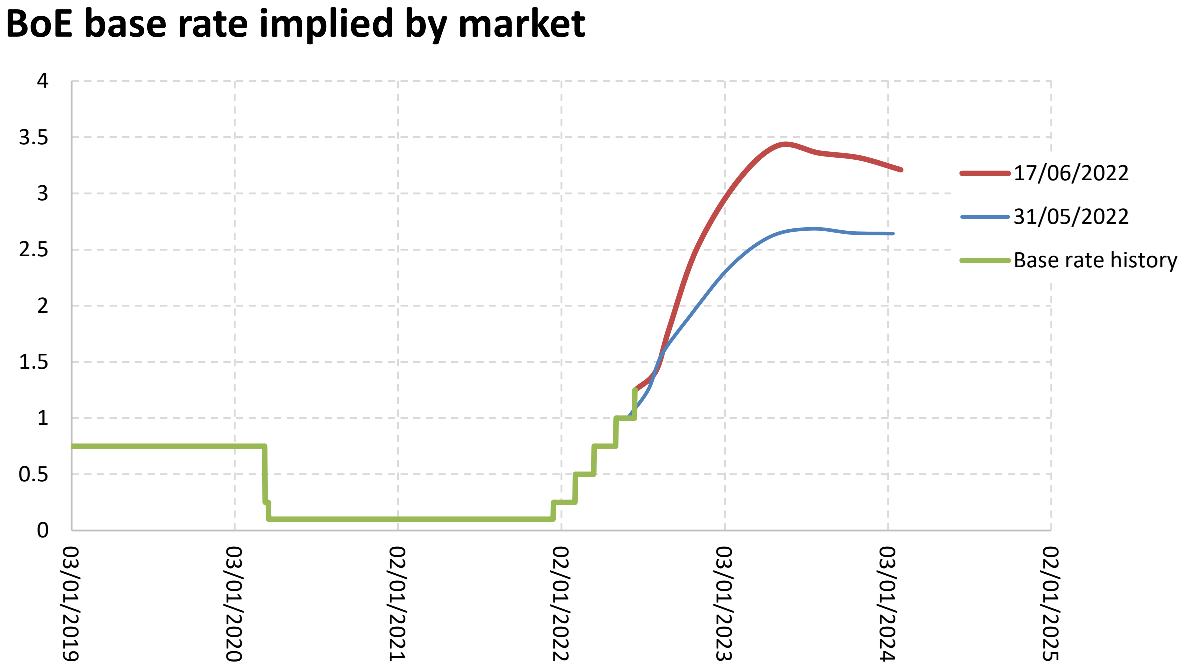
This time, more hawkish policymakers (like the Netherlands' Klaas Knot, a member of the ECB's Governing Council) appear to be on board. This is a positive sign, as a united ECB is a prerequisite to fighting fragmentation. Emergency measures from the pandemic seem to have given it licence to ignore previous restrictions on monetary transmission (such as the capital key), and it is now in a position to give hawkish nations precisely what they want – tighter monetary policy – while making room for others to grow.

Whether this holds up in the months to come is deeply uncertain. To stop peripheral yields spiking, the ECB may need to invest funds before current bonds mature. But this would temporarily increase the size of its balance sheet – which would not sit well with its stated desire to combat inflation. Political infighting would be likely in that situation, with potentially damaging effects on European markets. For now, we can take comfort from the fact that markets trust the ECB's commitment.

UK

The Bank of England (BoE) raised interest rates for the second time in as many months last week. The meeting that decided this had an air of déjà vu: in a split vote with the dissenting officials wanting a larger increase, the Monetary Policy Committee (MPC) opted for a 0.25% hike that took UK interest rates to 1.25%. And just like at the beginning of May, the BoE issued more dire economic warnings than it had before. It now expects inflation to reach 11% in October. At the same time, Britain's economy is expected to shrink by 0.3% this quarter – a worrying combination of high prices and low growth.

The quarter-point rise was in line with expectations, but a minority of economists were expecting a more aggressive 0.5% hike. The MPC promised to "act forcefully" against rapid inflation in its accompanying statement, but investors did not seem convinced. Sterling weakened against the US dollar in the day's trading – the latter of which was buoyed by the Fed's much larger rate hike.



Source: Tatton IM calculation, Bloomberg *17/06/2022*

Officials promised to be "particularly alert" to inflation pressures in the months ahead, but this was seen as softer rhetoric than May's promise of "some degree of further tightening". The vote itself was less divided than last month's, with only three MPC members calling for even tighter policy. This is despite the inflation outlook worsening, and the BoE admitting price rises were no longer just the result of global forces.

As we have written before, the BoE is in a bind. On the one hand, Britain faces the highest inflation of any G7 country and has a worryingly tight labour market. On the other, it has the worst growth numbers in the same group, and some economists think we may already be in a recession. These forces pull monetary policy in opposite directions – the former calling for drastic tightening and the latter calling for support.

To make matters worse, the government has announced several support measures which are expected to boost consumer demand, and more are likely on the way. That drastically reduces the BoE's room for manoeuvre, and has led some analysts to predict a 0.5% rate hike at the August meeting. In this context, the MPC's latest move looks particularly cautious. This could well be accompanied by a further deterioration in growth prospects. Ultimately, these will feed through into lower inflation at some point. But given how much consumer inflation can lag, there could be a great deal of pain before that point.

Japan

The Bank of Japan is an outlier among the world's major central banks. While others have fretted over global inflation, Governor Haruhiko Kuroda has stayed calm. And when others trimmed balance sheets and raised rates, Japan stayed the course. Rates are still negative in the world's third largest economy, and the BoJ is still buying government bonds in massive quantities to maintain its policy of yield curve control.

The contrast with the rest of the developed world is now causing strain in Japan's financial markets. Last Monday, the yen sank to its lowest dollar value in 24 years. That is despite the BoJ, Ministry of Finance and

Financial Services Agency issuing a rare joint statement last Friday expressing concern over the yen's slide. The implication was that policymakers may have to shift gears and match their hawkish contemporaries across the globe. But most economists expected no changes at the BoJ's Friday meeting – which proved correct.

At the same time, Japanese consumer inflation rose to 2.5% year-on-year in April – the highest level since 2014. While that is well short of the price rises seen elsewhere, Japan's history of chronic disinflation makes anything above the 2% target an eye-catching figure. Earlier this month, Kuroda gave a speech where he claimed that "Japanese households' tolerance of price rises has been increasing". His comments were badly received by the public. All of this has increased speculation that the BoJ may finally relent in its monetary support – allowing bond yields to rise. The short trade on Japanese government bonds has increased significantly, forcing the BoJ to spend billions defending yields.

We think this trade is misguided. Japan is in a completely different situation to other major economies, with very little inflation pressure and a still-sluggish economy. Financial conditions have eased recently, and we suspect the BoJ is willing to let this continue. After decades of inertia, the BoJ is likely to want a temporary overshoot of its inflation target, and will likely see it as a spur for economic activity.

The same could well be true of currency weakness. There has been speculation that Kuroda sees benefits in a weaker yen, which could help exporters. Even if this is wide of the mark, the yen is extremely cheap on a fundamental basis; rapid inflation elsewhere has increased Japanese consumers' relative purchasing power. A move down from here would therefore be difficult to sustain. In short, investors bet against the BoJ at their own peril.

CAMBRIDGE
INVESTMENTS LIMITED

20th June 2022

Global Equity Markets

Market	Fri 16:49	% 1 Week*	1 W	Technical Short	Technical Medium
FTSE 100	7016	-4.1	-302	↘	→
FTSE 250	18944	-3.7	-730	↘	↘
FTSE AS	3882	-4.1	-164	↘	⬂
FTSE Small	6368	-3.8	-250	↘	↘
CAC	5890	-4.8	-297	↘	↘
DAX	13115	-4.7	-647	↘	↘
Dow	29888	-4.8	-1505	↘	↘
S&P 500	3670	-5.9	-231	↘	↘
Nasdaq	10765	-5.1	-575	↘	↘
Nikkei	25963	-6.7	-1861	⬂	↘
MSCI World	2491	-5.7	-151	↘	↘
CSI 300	4309	+1.7	+70	↘	↘
MSCI EM	1008	-4.4	-47	↘	↘

Top 5 Gainers / Top 5 Decliners

Company	%	Company	%
Fresnillo	+8.9	Just Eat Takeaway.com N	-20.2
Coca-Cola HBC	+8.0	BP	-12.8
B&M European Value I	+4.5	Antofagasta	-11.2
Avast	+1.8	Persimmon	-11.2
HSBC	+1.8	Ashtead	-10.3

Currencies / Commodities

Pair	last	%1W	Cmdty	last	%1W
USD/GBP	1.221	-0.9	Oil	114.10	-6.5
GBP/EUR	0.858	-0.4	Gold	1844.3	-1.5
USD/EUR	1.05	-0.5	Silver	21.67	-1.0
JPY/USD	135.00	-0.4	Copper	401.3	-6.6
CNY/USD	6.72	-0.1	Aluminium	2504.5	-9.3
Bitcoin/$	20,558	-24.8	Soft Cmdties	231.4	-1.0

Global Equity Market - Valuations

Market	Div YLD %	LTM PE	NTM PE	10Y AVG
FTSE 100	4.3	11.5	9.7	14.3
FTSE 250	3.5	10.3	12.9	16.3
FTSE AS	4.2	11.3	10.0	14.5
FTSE Small x Inv_Tsts	3.3	7.5	9.4	15.3
CAC	3.2	12.8	10.3	15.2
DAX	3.6	11.6	10.9	13.7
Dow	2.2	15.4	15.6	16.9
S&P 500	1.7	17.8	16.1	18.2
Nasdaq	0.9	20.1	22.7	24.1
Nikkei	2.1	14.9	14.6	17.8
MSCI World	2.3	15.1	14.6	17.1
CSI 300	1.8	15.1	13.9	12.7
MSCI EM	2.9	10.0	11.1	12.7

Fixed Income

Govt bond	%Yield	1 W CH
UK 10-Yr	2.50	+0.05
UK 15-Yr	2.72	+0.09
US 10-Yr	3.22	+0.06
French 10-Yr	2.20	+0.10
German 10-Yr	1.66	+0.14
Japanese 10-Yr	0.23	-0.03

UK Mortgage Rates

Mortgage Rates	May	Apr
Base Rate Tracker	1.50	1.50
2-yr Fixed Rate	2.35	2.24
3-yr Fixed Rate	2.26	2.15
5-yr Fixed Rate	2.36	2.25
10-yr Fixed Rate	2.68	2.58
Standard Variable	4.10	4.07

* The *% 1 week* relates to the weekly index closing, rather than our Friday p.m. snapshot values

** LTM = last 12 months' (trailing) earnings;
***NTM = Next 12 months estimated (forward) earnings

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