CFAL Global Market Review — May 2014

EQUITIES	MTD	QTD	YTD	YOY
S&P 500 INDEX	2.10%	2.74%	4.07%	17.96%
FTSE EUROTOP 100 INDEX	1.80%	3.59%	4.34%	12.28%
DAX INDEX	3.54%	4.05%	4.09%	19.10%
FTSE 100 INDEX	0.95%	3.73%	1.41%	3.97%
NIKKEI 225	2.29%	-1.32%	-10.18%	6.23%
MSCI CHINA	4.03%	1.58%	-4.34%	0.70%
MSCI WORLD	1.63%	2.47%	3.26%	16.53%
MSCI EM	3.26%	3.32%	2.49%	1.86%
BONDS	**MTD**	**QTD**	**YTD**	**YOY**
JPMorgan Global Aggregate	0.65%	1.79%	4.38%	5.31%
iBoxx $ Treasury Total Return	1.09%	1.71%	3.47%	1.06%
JP Morgan MBS Bond Index	1.22%	2.21%	3.93%	3.47%
JPM Inv Grade Corp	1.76%	2.38%	4.98%	4.01%
CS High Yield Index	0.80%	1.60%	4.77%	7.71%
JPMorgan Emerging Markets $	3.09%	5.00%	8.63%	4.06%
DB Emerging Markets Local	2.56%	4.11%	5.63%	1.31%
COMMODITIES	**MTD**	**QTD**	**YTD**	**YOY**
GOLD SPOT $/OZ	-3.24%	-2.67%	3.66%	-9.96%
LME COPPER SPOT ($)	3.90%	4.05%	-6.19%	-4.97%
WTI OIL Futures	2.98%	1.11%	4.36%	11.68%
S&P GSCI Agriculture	-8.08%	-5.63%	9.39%	-6.14%

Source: Bloomberg. Equity price series excluding dividends

The S&P500 gained 2.1% over the month, in an apparent repudiation of the “sell in May and go away” adage. It is up 4.1% for 2014. However, US performance was again overshadowed by both European markets, with the German Dax rising 3.5%, as well as by Emerging Markets, which returned 3.3%. On a year-to-date basis, the broader Eurotop 100 index leads all major equity markets, up 4.3% versus 4.1% for the S&P500. Perennial 2014 laggards, Japan and China, both had much needed rebounds in May, with Japan’s Nikkei gaining 2.3% and a 4.0% return for MSCI China index. They still remain deeply negative for the year.

Fixed income markets all closed higher, again led by emerging markets which outperformed credit, duration products such as US treasuries and mortgages. The JP Morgan Emerging Market $ Index gained over 3% in May and is up an impressive 8.6% for 2014. The broader JP Morgan global aggregate index gained 0.7% during the month and is up 4.4% for the year, bettering the performance of all major equity markets. High yield, as measured by the Credit Suisse HY index, rose 0.8% in May and has returned 7.7% over the past 12 months to lead all fixed income sectors over that period.

In a reversal of the previous month’s performance within commodities, agriculture lost almost half of its recent gains, plunging -8.1% on improving coffee exports out of Brazil. We have always said that supply imbalances within the soft commodities and their associated price gains rarely persist for long. Gold also had a difficult month, losing –3.2% and reducing its earlier 2014 gain to 3.7%. The yellow metal appeared to have been forming a bottom but we cautioned investors to wait until a clear change in trend was evident before becoming an aggressive buyer. With the current decline through support levels around $1,280, gold looks poised to again retest the prior lows of $1,180.

Asset Allocation Snapshot

Asset Allocation	Under Weight	Neutral	Over Weight
Equities		x	
Bonds	x		
Alternatives		x	
Cash			x

Having made numerous allocation changes in February, including upgrading Alternatives from underweight, we maintain our recommendation of neutral Equities, underweight Bonds, neutral Alternatives/Commodities and overweight Cash.

In January we took profits in high-beta asset classes (small/mid cap stocks) to reflect a more value bias. At the same time we upgraded emerging market equities from underweight to neutral based on valuations, a move that has proven positive in the subsequent months.

Notwithstanding the current bond rally, we continue to be underweight in Fixed Income, favouring corporate credit risk (short-duration high yield, leveraged loans and convertible bonds) over US Treasuries. In January we issued the opinion that emerging market bonds had reached attractive valuation levels—their performance over the last quarter seems to support this view.

Finally, we maintain our neutral our allocation across alternatives, including metals, real estate and CTAs. The presence of trending markets in May resulting in the best performance within the Global Macro and Managed Futures space since July 2012.

Breaking News — ECB Rate Cut Enters Unchartered Territory

The European Central Bank today reduced interest rates and announced a series of measures designed to boost bank lending. ECB President Mario Draghi and his bank council are scrambling to prevent ultra-low inflation, currently expected to be only 0.7% this year, from turning into outright deflation, thereby derailing the tepid economic recovery.

The ECB reduced its main lending rate to 0.15%, a new all-time low, down from the 0.25% rate held since November. It also reduced the deposit rate on bank deposits held with the bank to minus 0.1%, essentially charging commercial banks for keeping there money at the ECB, something unprecedented for a major central bank of its size.

Mr. Draghi also announced a number of other initiatives that brings the ECB closer to the quantitative easing measure currently being implemented by the Fed, Bank of Japan and Bank of England. They include a new series of targeted long term refinancing operations or TLTROs, which will give banks access to low interest loans conditional on their new lending to households and businesses. The ECB also suspended its weekly absorption of bank funds (or sterilization) which allows the proceeds of its previous bond purchase program to remain in circulation in the economy. Their governing council is also intensifying its preparations to buy asset-backed securities.

European equity markets cheered, with the German DAX temporarily breaching 10,000 for the first time. The Euro, which was near $1.40 just 4 weeks ago, fell to as low as $1.3552 before recovering, as its interest rate differential narrowed against the US Dollar and Pound Sterling.

APPENDIX

Economic Data

Economic Indicators	Real GDP Growth/Forecast			Consumer Prices/Forecast			Unemployment	Official Policy Rates
Region	2013	2014	2015	2013	2014	2015	2014	Current
US	1.90%	2.50%	3.10%	1.50%	1.70%	2.10%	6.30%	0.25%
Europe	-0.40%	1.10%	1.50%	1.40%	0.80%	1.30%	11.70%	0.25%
UK	1.80%	2.90%	2.50%	2.60%	1.80%	2.00%	6.80%	0.50%
Japan	1.70%	1.35%	1.30%	0.30%	2.60%	1.70%	3.60%	0.10%
China	7.70%	7.30%	7.20%	2.60%	2.50%	3.00%	4.08%	3.00%
Global	2.07%	2.74%	3.11%	2.29%	2.63%	2.80%	n/a	n/a

Other Markets

HEDGE FUNDS	MTD	QTD	YTD	YOY
Convertible Arbitrage Index	-0.33%	-1.66%	0.44%	1.83%
HFRX Equity Hedge	-0.06%	-1.48%	-0.25%	3.99%
HFRX Macro	0.79%	0.23%	-0.81%	-2.19%
Merger Arbitrage Index	0.17%	0.28%	0.74%	2.73%
Distressed Securities Index	1.13%	0.93%	4.31%	5.81%
Event Driven Index	0.67%	-0.01%	2.81%	7.78%
HFRX Global Hedge Fund	0.45%	-0.28%	0.83%	2.92%
Barclay CTA Index	0.00%	0.21%	-0.65%	-2.26%

Source: Bloomberg. CTA index as at 30 April 2014

$ VS CURRENCIES	MTD	QTD	YTD	YOY
CHINA RENMINBI SPOT	-0.20%	0.48%	3.18%	1.84%
EURO SPOT	1.67%	0.97%	0.79%	-4.89%
BRITISH POUND SPOT	0.70%	-0.56%	-1.20%	-10.24%
JAPANESE YEN SPOT	-0.46%	-1.41%	-3.36%	1.31%

PROPERTY	MTD	QTD	YTD	YOY
S&P BMI US REIT	2.08%	5.33%	14.69%	5.56%
FTSE Developed Europe	3.23%	5.70%	11.29%	13.77%
NAREIT UK REITs	2.73%	5.53%	11.18%	16.66%
S&P BMI Japan	3.46%	0.10%	-6.65%	8.08%
BMI China Property REITs	2.68%	-2.30%	-10.27%	-16.37%
S&P Developed Property	3.47%	6.52%	10.57%	10.66%

Source: Bloomberg.