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Equities make further progress in the week

There were lots of mentions of recovery and voting in the past week. Equity markets continued their recent rebound, helped by the tailwind of revised US growth, recovering oil and metals prices and some positive corporate updates. It wasn't all positive as markets mulled the confirmation of a vote on Britain's continued membership of the European Union, while shares for a number of banks remained under pressure amid weaker than expected earnings. Materials, energy and consumer discretionary stocks generally outperformed.

Ireland also went to the ballot box, but by Monday morning it isn't entirely clear what the outcome will be and whether a stable government can be formed. Irish bonds were pretty solid in the run-up to the vote, although the gap between Irish and German borrowing costs did widen a little. Spain doesn't yet have a government after its election in December, and as compelling a proposition as that might seem, investors generally don't like that kind of situation to persist for too long.

One election that did complete on time was FIFA's presidential vote. One of the key commitments of the winning candidate was that every member association would receive $5 million in development aid and he would expand the World Cup Finals to 40 teams. That proved to be a winning platform.

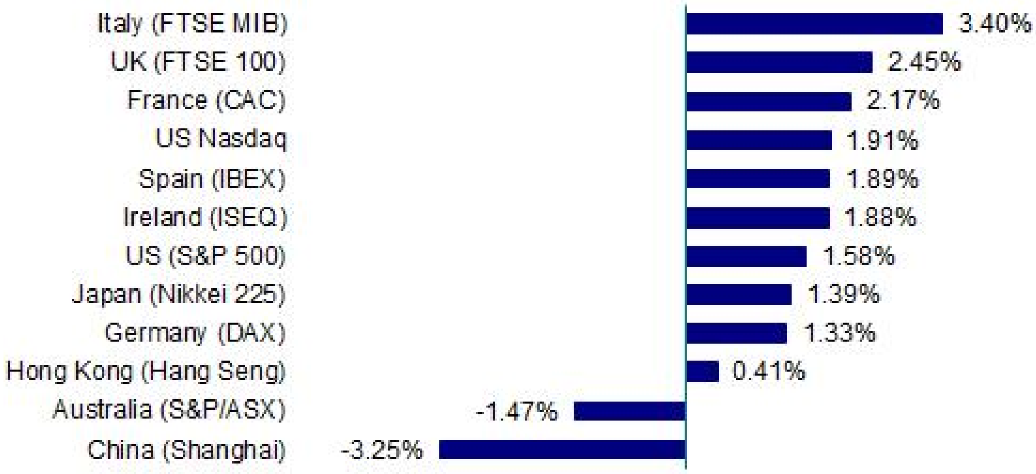
What the US consumer thinks… or doesn't
An interesting snapshot of the US consumer emerged. While a measure of confidence dropped to an eight-month low in February, consumer spending rose in January by the most in eight months. One reading of this could be that confidence has been temporarily shaken by turbulence on financial markets, but that the underlying fundamentals remain strong. Cheap energy, rising house prices and low unemployment are positive factors for the consumer's disposable income. Spending on durable goods was notably strong, suggesting that confidence is strong enough to spend a bit on bigger capital items, such as cars, furniture etc. The consensus appears to be that confidence should recover in the coming months. What a more confident consumer means for the relative chances of a Trump, Rubio or Clinton presidency is anybody's guess.

Sterling stuff
The prize for David Cameron on winning concessions for the UK to stay in the European Union has been to be blindsided by his buddy Boris Johnson who is encouraging an 'exit' vote in a referendum set for 23 June. Financial markets weren't overly enamoured either, choosing to discount the likely uncertainty of the next few months by marking down the value of the British pound. It means that the euro has recovered all of its loss from 2015, while against the US dollar, sterling traded at its lowest level since 2009.

Banking on it
It was another mixed weak for banks. JPMorgan Chase dipped modestly as it warned on earnings because of falling investment banking revenues and an increase in default provisions for energy loans. Standard Chartered shares initially weakened as it reported its first annual loss in 25 years. The bank announced a loss of $2.4 billion as revenues fell by 15%. However, the shares rebounded to end the week almost 4% higher. Royal Bank of Scotland dropped 8% as it reported its eighth consecutive annual loss. It has continued to pick up penalties related to past misdeeds and a further settlement with US authorities is reportedly on the horizon.

US rate hike potential
Although Federal Reserve Chair Janet Yellen has not indicated any change to a signalled interest rate hike in March, the market is not convinced notwithstanding decent enough economic data releases. In fact, one of the most consistent proponents of tighter monetary policy has been St. Louis Fed President James Bullard and on Wednesday he stated that he regards it as "unwise to continue a normalization strategy in an environment of declining market-based inflation expectations."

A Week on the Markets



Source: Bloomberg Finance LP. Capital returns in local currency for the week to Friday 26 February 2016
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