January 2014: goodbye and good riddance
By Tom Stevenson, 31 January 2014

It is just as well I don’t put much store by all those January market adages. If you believe the performance of shares in the first month sets the tone for the full year then you are likely feeling pretty depressed today. And don’t even mention the weather....

Stock markets around the world are ending yet another week on the back foot as a full five days of emerging market turmoil takes its toll across the board. The winners by contrast are perceived safe-havens, with Treasury bonds defying those (I raise my hand) who think that equities are a better place to be in 2014 than fixed income.

Gold and the Japanese yen are two other haven assets which have attracted nervous investors. And the rise in the Japanese currency has had its usual knock-on impact on the Tokyo stock market where a strong yen clouds the prospects for the country’s big exporters. The Nikkei index has fallen by around 8% in January, although this follows a massive run-up in 2013.

Emerging markets have been hit almost as much, down by 7%, although the brunt of the selling in the developing world has been on the foreign exchanges as countries from Turkey to Argentina, South Africa, Russia and India have all battled to support their currencies in the face of rising yields in the US and slowing economic growth in China.

Turkey was in the vanguard of efforts to fight off the currency speculators as it staged a midnight meeting of its monetary policy committee at which it raised its interest rates from 7.75% to 12%, a much bigger hike than most observers expected.

Initially, this shock and awe approach was thought to have drawn a line under the emerging market rout but the storm soon picked up again and the week is ending with the Hungarian forint and South African rand joining the Turkish lira under the cosh.
Emerging markets are under pressure on two fronts. Those countries, especially big commodity exporters, which are dependent on continuing strong growth in China have been hit by worries over the ongoing slowdown in the Middle Kingdom.

Meanwhile, those countries with big current account deficits, dependent on overseas investment flowing in to balance the books, are suffering as the US progressively reins in its monetary stimulus, making domestic American investments look ever more attractive relatively speaking.

There has been bad news on both fronts this week. Data showed that Chinese manufacturing contracted for the first time in six months. At the same time, the Federal Reserve marked Ben Bernanke’s final meeting in charge with another $10bn reduction in its rate of money printing. At the current rate of progress, the Fed will have ended its third quantitative easing programme by the end of this year.

Investors have been quick to react to this cocktail of bad news for emerging markets. Outflows from developing country funds in the week to 29 January were the highest since August 2011. In total, outflows have reached more than $12bn this month, according to EPFR, which tracks fund flow data.

Closer to home, Britain’s GDP in the final three months of 2013 grew by 0.7%. That was a fraction slower than in the third quarter when output increased by 0.8% but it still resulted in a 1.9% increase for 2013 as a whole, the best result since 2007.

The international nature of the UK’s stock market meant, however, that good news on the domestic front wasn’t enough to offset the volatility in global markets. The FTSE 100 is ending the week around 400 points down from its recent high.

Once again the UK’s benchmark index has come within a whisker of clearing the 6,930 high point of the dot.com boom 14 years ago and then retreated at the last minute.

Elsewhere, this has been a busy week in the corporate reporting calendar. Highlight of the week was probably Facebook, which beat expectations easily for the third quarter in a row and saw its shares jump on the announcement.

It was a bright spot in an otherwise extremely challenging month for investors.
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