TIER ONE CAPITAL
INDEPENDENT WEALTH MANAGEMENT

MARCH 2014

QUARTERLY MARKET REVIEW: Q1 2014

HIGHLIGHTS

- Global equities earned slight gains in Q1. Worries over US tapering policy as well as severe weather conditions in the US led to a weak start. Stock markets recovered as the quarter progressed but have been reigned in by geopolitical tensions between Russia and the West centred on Ukraine.
- The S&P 500 had a run of record closing highs following changes to the Fed's forward guidance, while monetary policy remained unchanged in the Eurozone, leading Europe to largely outperform globally.
- Debt issuance globally has fallen in year-on-year figures but global bonds have outperformed major equity market indices over the quarter.
- Copper has been hit following a slowdown in China and a readjustment of domestic policy.

EQUITIES

Global stock markets were close to ending Q1 flat, recouping earlier losses after generally positive economic data from the US and UK fed into world markets. The MSCI World Index was up 1.40% however the emerging market index was down by 0.43% as weak economic data from China as well as the political tension between Ukraine and Russia added to ongoing concerns about the volatility of developing nations.

Europe was one of the better-performing equity markets as concerted efforts for economic stability set in, while across in the US, the S&P 500 ended the quarter positively after a series of record closing highs. Worries over the Federal Reserve's tapering policy were mitigated after an adjustment to forward guidance saw the unemployment target of 6.5% dropped with the Fed preferring a blended range of economic indicators instead. In the Eurozone, equities were supported by positive macroeconomic data and an unchanged monetary policy from the European Central Bank, although gains have been constrained by the crisis in Ukraine.

Weak economic data has made the first quarter a volatile one for equity allocations. The potential for deflation in Europe as inflation data remained below target while concerns over Japanese Prime Minister Shinzo Abe to sustainably influence the Japanese economy have rendered sentiment mixed, continuing to impact investor returns. The poor performance of the emerging world persisted with markets focussed on the strained geopolitical tension following Russia's adoption of Crimea, while rising debt in China and a slowdown in credit conditions worldwide added further pressure.

BONDS

Activity in debt markets has fallen 4% in year-on-year figures from Thomson Reuters, however there was a rise of 22% when compared with Q4 2013.

Global bonds have predominantly outperformed major world equity indices with the Barclays Global Aggregate index up 2.40% over the first three months of the year, defying 2013 predictions. In January, treasury yields fell with volatility spikes in emerging markets coupled with poor economic data from the US. These losses were recovered in February while March continued the positive momentum. Policy fears from central banks were alleviated with the US revisions to tapering as well as an unchanged strategy from the ECB received well. Despite this, the crisis in Ukraine as well as the slowdown in China continues to exert downward pressure on bond yields. The 10 year Treasury yield fell from 3.03% to 2.76% over Q1 with similar trends seen in Gilts and Bunds. Over in Italy and Spain, 10 year debt yields dropped to their lowest points since 2005 to 3.4% in March as economic recovery and political changes engendered positive sentiment for sustained recovery.

At the firm level, UK Corporates gained 2.29% while UK Index-Linked bonds earned 3.18%. Globally, emerging markets earned 3.74%, outperforming Global Investment Grade bonds by 1.64%. Thomson Reuters reports that circa 54% of all emerging markets corporate debt during the quarter was raised by issuers in Brazil, Mexico and India.

ALTERNATIVES

Commodities in Q1 have been relatively unaffected by the geopolitical tensions of Russia/Ukraine, Turkey and Argentina. One notable exception has been copper, where we have witnessed volatility spikes. Global copper mine supply is accelerating while a slowdown in China could have a persistent downward impact on copper prices if demand falls short. This is emphasised when noted that China accounts for 35-40% of global copper consumption.

Gold has enjoyed an extended rally on the back of geopolitical tensions in Ukraine and the severe weather conditions of the US. Moving forward, it is likely for gold demand to be driven by US inflation and policy from the Fed however analyst predictions are for gold to be circa $1,100 by year-end.

The Ukrainian crisis has yet to impact oil prices and is not predicted to do so moving forward. This is supported by economic figures that outline the importance of European exports for Russia (which account for 57% of all exports) as well as European imports from Russia (44% of imported oil in Europe is sourced from

Russia, of which 32% is exported). Further occupation of Ukrainian ethnic-Russian territory by Putin is unlikely due to the risk of stronger economic sanctions, and given the economic magnitude of disruptions to the oil supply for both parties, it is not expected for oil prices to move significantly in the coming periods.

Natural gas is expected to gradually fall over Q2 following hikes in Q1 due to extreme weather. Natural gas and heating oil rose over the winter months, with volatility spiking in late February up to 130%.

In crops, Ukraine, as the world's third largest corn exporter, caused concern over corn pricing following Crimean tensions however, production and shipping are not located within regions of potential disruption and so no impact should be felt. In South America, production is not expected to be as high as previously thought for wheat and sugar. There could resultantly be a later rally in the year in sugar prices dependent on actual Brazilian crop. In contrast to the north, South America experienced record temperatures with dry conditions impacting coffee production and leading to a surge in prices.

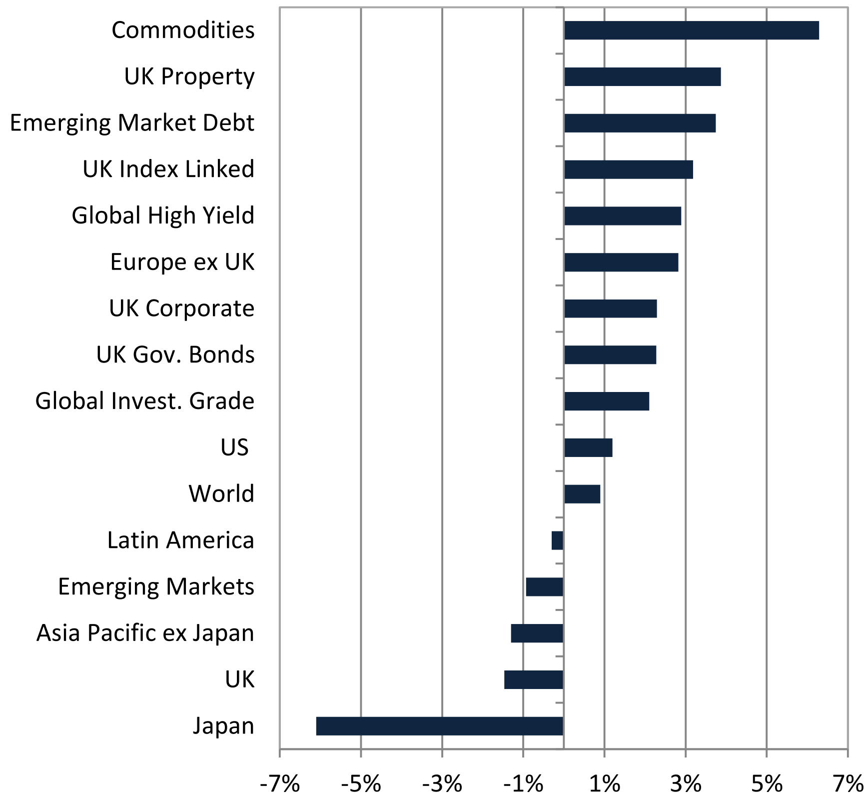
Property prices in the UK continued to display a divergence between London and the rest of the country. London prices are estimated to rise circa 8% over 2014, and areas close to the capital should also benefit given good commuter links. Housing demand is expected to continue to outstrip housing supply, with Chancellor Osborne indicating in February that the UK is not building enough new homes. This will probably continue to exert upward pressure on house prices, while expectations for a growing population will also add further strain.

Equities (MSCI)	Sterling	Local
World	0.90%	1.40%
US	1.20%	1.80%
Europe ex UK	2.82%	3.47%
UK	-1.47%	-1.47%
Japan	-6.10%	-7.61%
Asia Pacific ex Japan	-1.30%	-0.80%
Latin America	-0.30%	-1.70%
Emerging Markets	-0.93%	-0.43%

Bonds	Sterling	Local
UK Gov. Bonds	2.28%	2.28%
UK Index Linked	3.18%	3.18%
UK Corporate	2.29%	2.29%
Global Invest. Grade	2.10%	2.40%
Global High Yield	2.89%	2.86%
Emerging Market Debt	3.74%	3.48%

Alternatives	Sterling	Local
Commodities	6.29%	6.99%
UK Property	3.87%	3.87%

Source: *Morningstar*



Commodities
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Emerging Market Debt
UK Index Linked
Global High Yield
Europe ex UK
UK Corporate
UK Gov. Bonds
Global Invest. Grade
US
World
Latin America
Emerging Markets
Asia Pacific ex Japan
UK
Japan
-7%
-5%
-3%
-1%
1%
3%
5%
7%