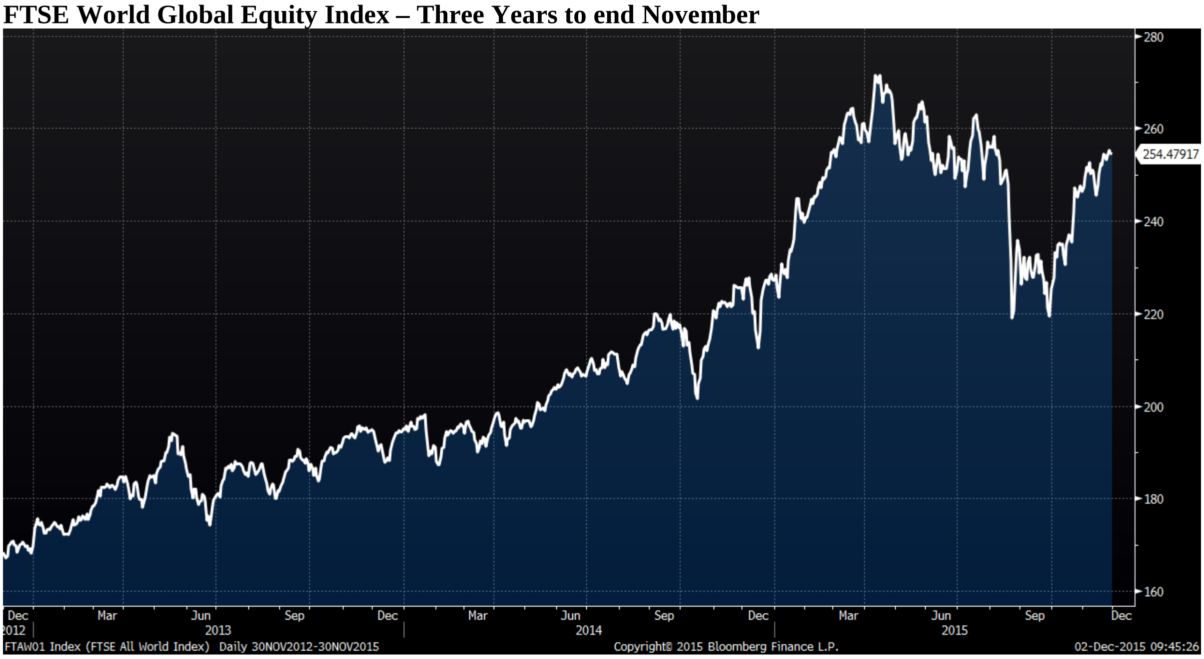
Investment Markets in November

November saw further recovery in equity markets with weakness in the euro adding currency gains to the strength in share prices. Commodity markets remained volatile with oil, gold and most base metals retreating while food commodities were generally stronger despite weakness in grains. Eurozone bond markets were stronger as the market anticipated an increase in Central Bank purchases with the expected expansion in the ECB's quantitative easing programme in 2016. US and UK bond weakness was more than offset by strength in the US dollar and sterling.

Investment Market Performance

	Year to Date		November - 2015	
Index	**In local Currency (%)**	**In € %**	**In local Currency (%)**	**In € %**
ISEQ Index	30.9%	30.9%	6.4%	6.4%
FTSE 100	-3.2%	7.1%	-0.1%	1.6%
Eurostoxx 50 Index	11.4%	11.4%	2.6%	2.6%
S&P 500	1.0%	15.7%	0.1%	4.2%
Nikkei 225	13.2%	26.2%	3.5%	5.6%
FTSE All-World	-2.2%	12.0%	-1.0%	3.2%
Oil	-21.8%	-10.5%	-10.6%	-6.9%
Eurozone Government Bonds		3.0%		0.4%
USD / Euro		14.6%		4.2%
GBP / Euro		10.7%		1.6%

FTSE World Global Equity Index – Three Years to end November

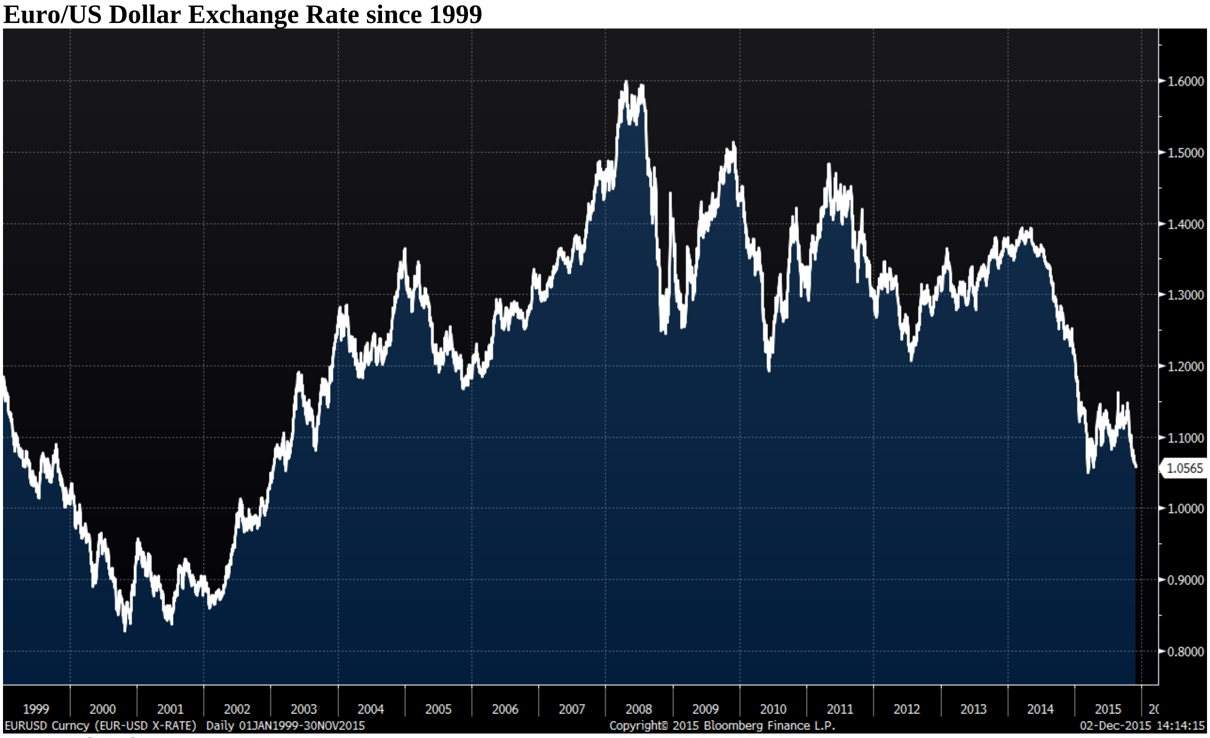


Source: Bloomberg

US Interest Rates and the US Dollar

The sharp gain in the US dollar in the month reflects increased expectations of a US interest rate increase in December and strong suggestions from the ECB that it would announce an expansion of its quantitative easing programme before the end of the year. The divergence in interest rate policy between the two largest currency zones expected in the New Year will have significant implications for investors. With the US dollar within striking distance of parity with the European single currency (1.056 at the time of writing), we assess the implications for the various asset classes of the gain in the dollar and the corresponding weakness in the euro.

Euro/US Dollar Exchange Rate since 1999



Source: Bloomberg

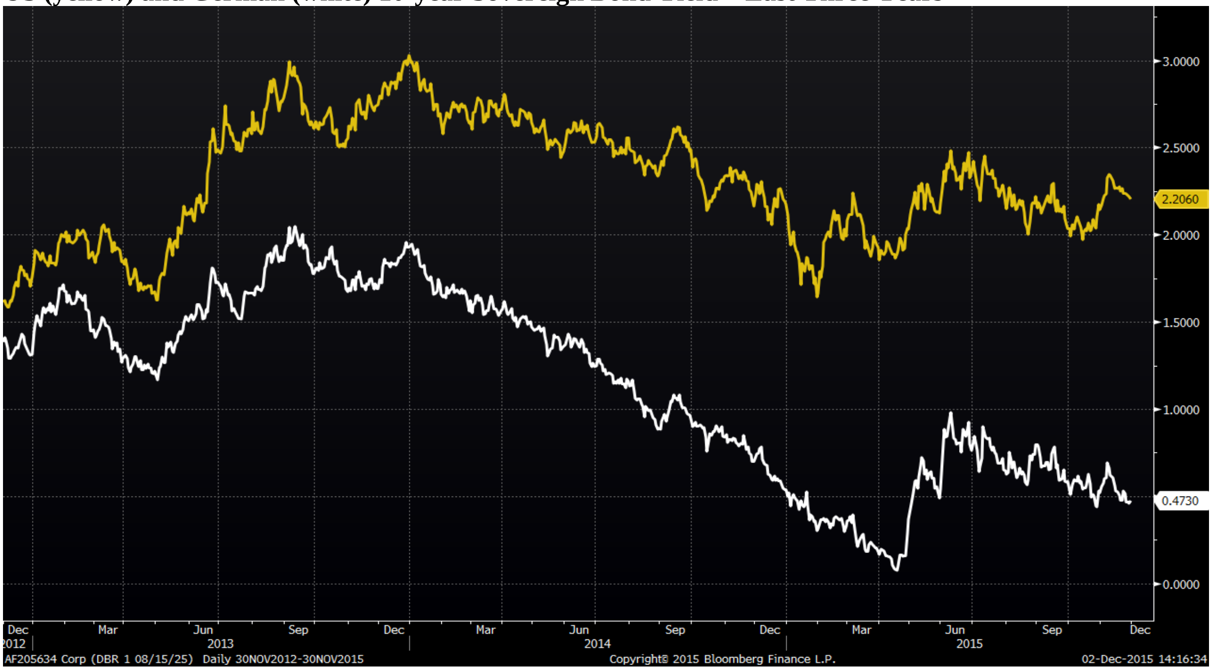
Equities

The weakness in the euro is clearly supportive of euro-based exporters particularly manufacturing companies who are already benefitting from weakness in commodity prices. While US equity markets are less reliant on exports for revenue growth, the strength in the US dollar does present a headwind for most US companies going into 2016. The challenge presented by the stronger US dollar for US corporates is countered, however, by the expectation that US economic growth will continue to accelerate with the resulting increase in demand more than offsetting any loss in export earnings. UK equities are more vulnerable to the increased competiveness of Eurozone exports. Revenues in the UK manufacturing sector are, therefore, likely to suffer should exchange rates remain at current levels.

Bonds

The increase in the US dollar has tracked the increase in US bond yields over the last year as markets anticipate an increase in interest rates. Eurozone bonds are unlikely to remain immune to the increase in yields in the US as investors take advantage of the higher yields offered by Treasuries as well as the relatively attractive exchange rate by switching from high quality Eurozone Sovereigns. Many commentators have been predicting a collapse in bond prices for a good number of years now only for prices to continue rising as inflation and interest rate expectations get ratcheted lower and lower. While the relatively modest interest rate increases anticipated in the US are unlikely to see a flood of German and French bond selling, they could see a significant fall in the prices of longer dated bonds which are the most vulnerable to a correction in yields.

US (yellow) and German (white) 10-year Sovereign Bond Yield – Last Three Years



Source: Bloomberg

Emerging Markets

One of the most notable effects of the massive quantitative easing programmes undertaken in the US, Europe and Japan has been the extent to which money printed in developed economies has ended up being loaned in emerging markets. The closing of the QE tap in the US and the subsequent increase in the US dollar and the anticipated increase in US interest rates now pose a significant threat to the ability of emerging market borrowers to repay these loans as liquidity tightens. This has been reflected in a significant economic slowdown across all of the major emerging markets which has been amplified by the weakness in many basic commodity prices. While the expansion of the ECB's QE programme will, to some extent, replace the withdrawn US dollar liquidity, the shock to confidence already apparent in emerging markets may already be irreversible. We remain cautious regarding exposure to emerging market equities, debt and currencies.

MSCI Emerging Markets Index – Two Years to end November

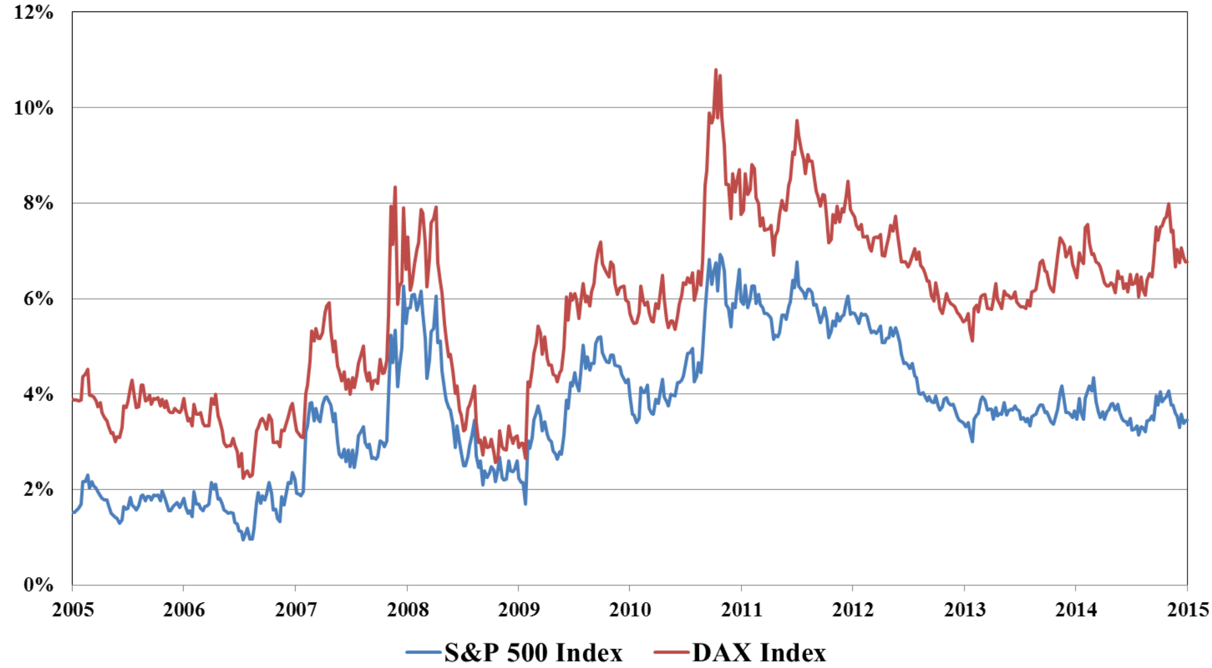
Source: Bloomberg

Equity Market Valuations Supported by Central Bank Policy going into 2016

November saw the release of third quarter corporate earnings for the majority of S&P 500 stocks as well as many of the largest globally listed companies. In general, corporate earnings for the third quarter have been strong with over 60% of companies beating analyst expectations. US companies performed best in the reporting period, with two-thirds of earnings reported being better than expected while in Europe just over half of companies reported better than expected results. The best performing sectors were Information Technology, Health Care and Energy while Industrials and Materials were the most likely to disappoint.

Overall, earnings multiples in Europe and the US have returned to close to their highs of the last ten years. While the Eurozone interest rate outlook (low rates for longer and expanded QE) supports higher valuations, a tightening in US monetary policy should see downward pressure on US multiples. In the chart below we illustrate the relative earnings yields on US and German stocks when the relevant interest rate outlook (10 year bond yield) is taken into consideration. Our preference for Eurozone equities over US stocks remains supported by this relative valuation argument.

Historical Expected Earnings Yield minus 10 Year Bond Yield



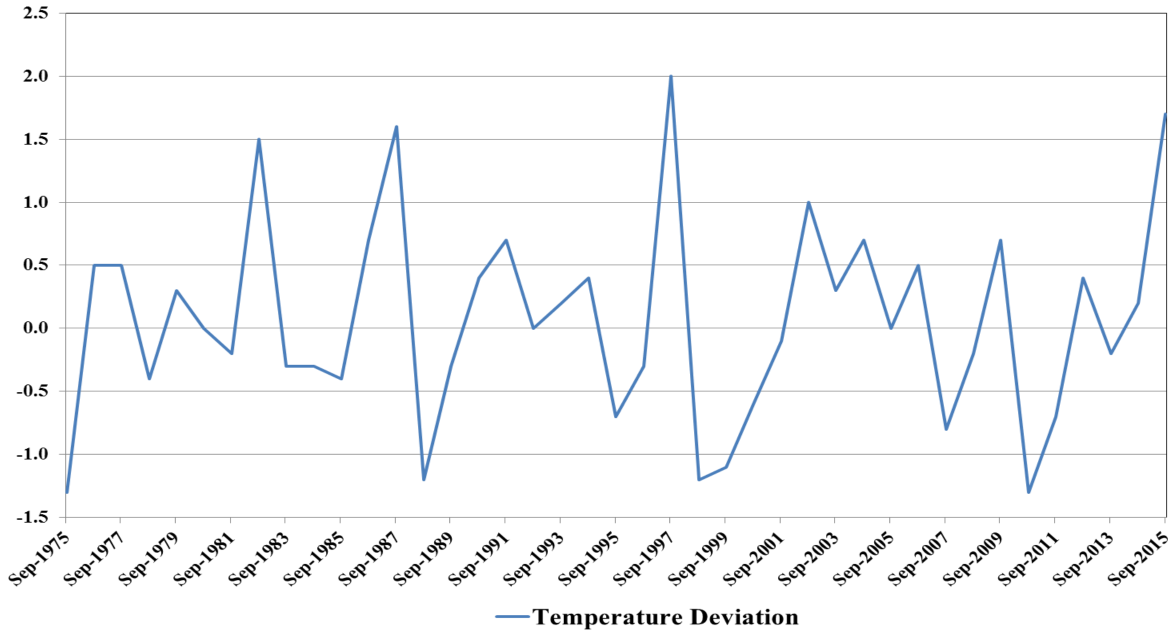
Source: Bloomberg, Wellesley Investments & Pensions

Agricultural Commodity Update – Sugar Prices Spike as El Nino Intensifies

The National Oceanic and Atmospheric Administration (NOAA) has indicated that strong El Nino conditions are present across central and eastern equatorial Pacific Ocean, with the latest weekly sea surface temperatures suggesting a so-called "super event". The extent of the temperature deviation means that this El Nino will be one of the most extreme in recorded history. El Nino conditions normally reach maximum strength between October and January, and persist through the first quarter of the following year impacting weather patterns across much of the world's most important food producing regions.

The 2015 El Nino would appear to have had some impact on the world's climate already with seven of the first nine months of the year breaking high temperature records followed by the hottest October in 136 years.

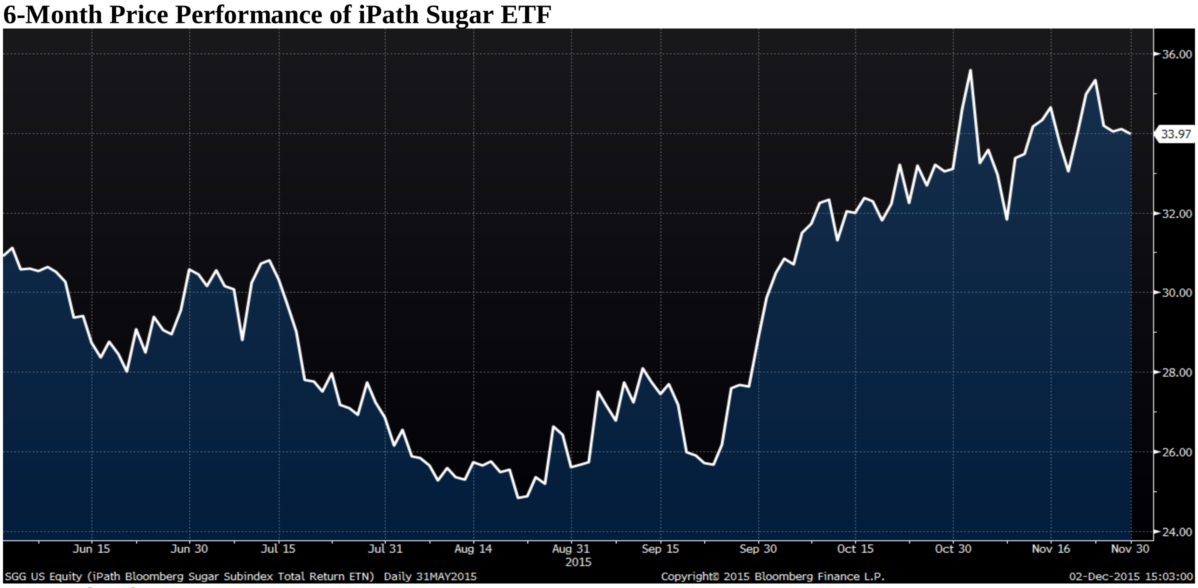
Oceanic Nino Index



Source: National Oceanic Atmospheric Administration, Wellesley Investments & Pensions

Global sugar production for 2015/16 is forecast to be down by 3 million metric tons with reductions in Brazil, India, the European Union and Ukraine offsetting gains in Australia, Russia and Turkey. Consumption on the other hand is projected to reach a record 173 million, reducing end of year inventories by 10%. This transition from a surplus to a deficit market for the first time since 2009/2010 has seen the sugar price soar 40% since mid-August. As well as the impact on yields of weather disruption (India, the second largest producing country, has experienced much lower monsoon rainfall), a significant switch in Brazilian acreage from sugar to ethanol production has also impacted supplies.

6-Month Price Performance of iPath Sugar ETF



Source: Bloomberg