GREEK DEBT NEGOTIATIONS RUMBLE ON

It is still extremely unclear what is going on between Greece and its EU creditors, primarily Germany. This week the ECB decided to stop allowing Greek sovereign bonds to be posted as collateral – effectively cutting a source of short term cash funding for the Greek banks. Some have made this out to be a strong signal that Germany wants to cut Greece out of the Eurozone. However, strictly speaking this source of funding was only intended to be available while the bailout agreement was in force, and it is now under negotiation again, meaning that arguably the ECB is only following the rules agreed in advance.

The truth is that a game of political brinkmanship is being played, and even experts can't agree on what the outcome is most likely to be. From an investment point of view it is all up in the air, and while the market could well post a strong recovery if an agreement is reached, a euro exit would be problematic in the short term.

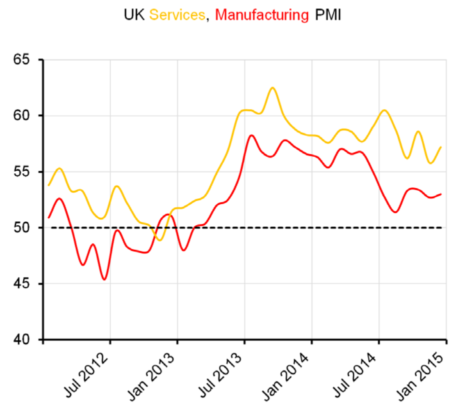
THE MARKETS THIS WEEK

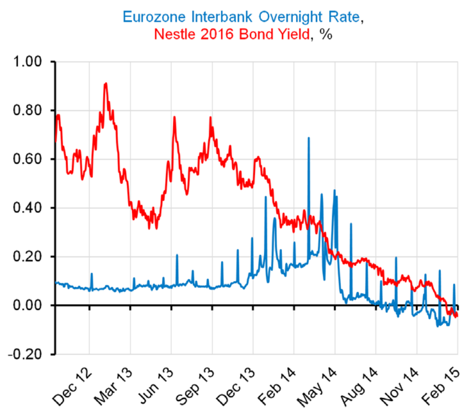
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+1.48%	+2.04%	-0.15%	+0.70%	+1.36%	+1.90%	+1.58%	+13.16%	-8.55%	-0.64%	+5.57%

UK: RATES HELD AS BUSINESS SENTIMENT IMPROVES

Positive data in the UK provided an uplifting effect on markets – although the Bank of England maintaining rates at just 0.5% suggests they are cautious on its long-term significance. Construction growth accelerated during January, as indicated by Markit Economics' PMI rising to 59.1 from 57.6 in December. A similar trend was seen for the Services sector survey, which rose to 57.2 from 55.8 over the same period. This uptick in business sentiment might be a sign of the UK's resilience to a deteriorating Eurozone; however we prefer to be slightly more cautious, particularly when extracting conclusions from one month of data.

Local authorities are expected to issue their first municipal bond in April. This comes as the government's Debt Management Office plans to impose further lending restrictions on them, and should reduce their cost of borrowing. For fixed income investors, this opens up another set of domestic opportunities, albeit small initially.





EU: NEGATIVE YIELDS LOOK SET TO STAY

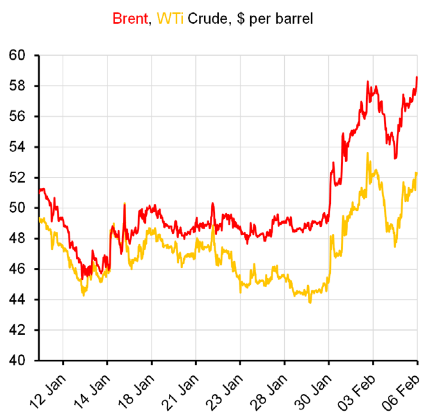
Is today 'opposites day'? This might be the first logical question for someone waking from a coma and looking at the negative European bond yields. The idea of paying someone to borrow your own money now looks like the new 'normal' under the bizarre influence of the ECB's Quantitative Easing. Nestle's 2016 Euro-denominated bond was the first ever corporate bond to reach a negative yield, dipping as low as -0.04 percent. Some might argue the global nature of the firm and its dominant branding makes this a fine trade-off, especially when depositing money at a bank costs more. Despite this, playing a game of musical chairs with such bonds – hoping that you're not the last one holding it when the music changes - doesn't feel quite right.

Speaking of central banks, Denmark has cut its interest rate for a fourth time this year to match Switzerland's -0.75 percent, in a further effort to maintain a stable exchange rate against the Euro. With Japan's recent moves to devalue its currency, it feels like a race to the bottom.

OIL: PRICES REBOUND AS US SUPPLY LOOKS TO WEAKEN

Oil prices began to rebound after news of slowing US production; Brent crude rose above $55 per barrel and WTi above $50. This coincided with several major producers announcing plans to shut down high cost offshore platforms and expansion plans. Unsurprisingly, default rates amongst smaller US oil producers that had issued high yield bonds into the market have begun to increase. This bears little significance to those with diversified exposure, but does act as a reminder of how quickly fundamentals can change in high risk assets, even in todays near-zero interest rate environment.

While it seems very unlikely oil will pass back above the $100 per barrel threshold, the rebound could be a seriously disappointing trend for those who have placed big macroeconomic bets on cheap crude kick-starting the global economy.



Data Sourced from FE Analytics, and Bloomberg Finance LP