PANAMA DOCUMENT LEAK SPARKS GLOBAL INVESTIGATIONS

This week has been dominated by headlines surrounding the leaking of 11 million documents from the Panamanian law firm Mossack Fonseca. While society has always been vaguely aware of the loose purpose that tax havens serve in helping wealthy clients shelter their cash from the authorities, the details have always been lacking. Now they are here for us to see, perhaps the most worrying revelation from the files was the propensity of world leaders to become involved in such widespread deception.

This is just the start of the investigations however. Expect corrupt regimes to be uncovered, money laundering rings to be busted and tax evaders to be hit hard. The White House has responded quickly, announcing more stringent rules on tax inversion just two days after the news came to light. The policy looks to have already had some success following pharmaceutical company Pfizer's planned merger with Allergan falling through this week, with many speculating that Pfizer stood ready to benefit from tax loopholes by relocating to Ireland.

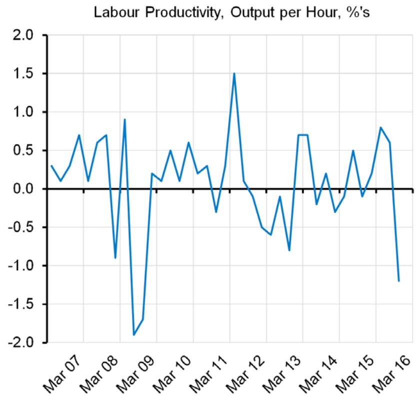
THE MARKETS THIS WEEK

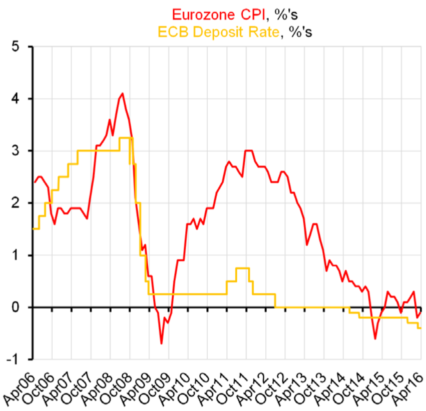
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.15%	+0.34%	-2.56%	-2.46%	-2.70%	-1.77%	-3.60%	+2.22%	-4.03%	+1.47%	-3.94%

UK: PRODUCTIVITY DATA AT ODDS WITH COMPANY VALUATIONS

The steepest drop in economic output per hour by British workers since the 2008 recession has been flagged by the most recent Office for Budget Responsibility report on Labour productivity. A drop of 1.2 per cent between the last two quarters of 2015 comes as a consequence of the labour force size increasing faster than economic output. The grim figures are in line with this week's Markit report, which indicated that economic expansion slowed to 0.4 per cent in the first quarter of the year, trending below what we saw at the end of 2015.

These forecasts are however contradicted by what we are seeing in equity valuations. This week's story of UK equities hitting a record premium means that UK companies are on average, outperforming all other European companies. Valuations climbed to 15.5 times estimated earnings in the FTSE 350 index, or 7 per cent more than for the Stoxx Europe 600 benchmark. This is the biggest premium on record since 2005. The trend could be attributed to the rebound in energy and commodity prices, as well as Brexit fears becoming less prominent.





EU: BUND YIELDS APPROACH ALL-TIME LOWS

On Tuesday, German 10-year bund yields hit their lowest level in one year, as they sunk to 0.08 per cent. According to data from Tradeweb, it means that yields are just a fraction shy of their all-time low of 0.049 per cent in April last year. Demand for sovereign bonds has been particularly strong over the last week and a half, as yields move inversely with prices. Other than investors looking to take risk off the table, the drop in German yields also has a lot to do with the European Central Bank's decision to expand its quantitative easing programme last month. The ECB is now snapping up €80bn-worth of bond purchases every month, while the decision to cut interest rates to minus 0.4 per cent has also helped to assist demand for debt.

The minutes revealed from last month's ECB policy vote confirm that interest rates have further to fall, should growth or inflation weaken further. Consumer prices in the Euro Area fell 0.1 per cent year on year in March, a modest uptick, though the conundrum of low inflation despite favourable monetary conditions will continue to perplex central banks for a while to come.

EM: SAUDI GOVERNMENT ANNOUNCES BOND ISSUE

Earlier this week, Saudi Arabia announced plans for introducing the first Saudi international dollar bond to the market later in the year. The plan is part of a larger economic re-shaping of the kingdom, which aims to give non-oil sectors a revenue boost. Elsewhere, the Argentinian government have announced a long-awaited return to the global capital market by issuing a $15bn bond sale which they will road show next week. Both governments will aim to cut respective budget deficits and pay off creditors with the sale proceeds, which are particularly critical in the light of falling oil prices and rising public debt.

According to BlackRock, an additional $3tn may be added to emerging market debt over the next few years. The asset manager also highlighted how pension funds across the US are being routinely told to increase their exposure to emerging market debt. Currently, a US pension fund has an average 4 per weighting to the asset class, however BlackRock have advised investors to more than double this allocation to 10 per cent.