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Marshalling Moscow

As Moscow faced international condemnation after its orchestration of the weekend referendum on the future of Crimea in favour of reunion with Russia, Kiev remains on a financial as well as a military knife-edge. Ukraine's financial and economic crisis preceded the political ferment, the removal of President Viktor Yanukovych, Russia's seizure of Crimea and the deepening international crisis surrounding President Vladimir Putin's response to Ukraine's revolution. The European Union (EU), Russia and the US have in recent months vied to win Kiev over with promises to help meet the $35 billion the Ukraine needs to stay afloat. The International Monetary Fund (IMF) last week was in Kiev to negotiate a reform package and the support Ukraine needs to avoid bankruptcy.

The world markets looked less sanguine as the threat of sanctions on Russia grew and President Barack Obama warned that continued aggression towards Ukraine would force the US and the EU to apply "costs". The US and EU reiterated that the referendum was a breach of Ukraine's constitution and international law, but, in the absence of a wish to match Putin's actions on the ground, the Western powers' best option remains to help Ukraine economically and financially. Mike Amey, a portfolio manager with PIMCO, says that an alignment with the West in tandem with the IMF would require write-downs, restructuring and deficit cuts. But a Marshall Plan-type package for Ukraine could underwrite a prosperous democracy and functioning market on the EU's eastern border – a way of life to which many Russians aspire.

Meanwhile, in China, signs of financial liberalisation and slowing growth were a reminder that the world's second-largest economy remains in transition towards a consumer-led economy under the auspices of the Communist Party. China's central bank said that controls on the interest rates for savers would be lifted within two years. Weak production and retail figures added to fears that growth could fall below the government's 7.5% level. And concerns persist over a Chinese credit bubble, while commodity prices continue to slide on slowing demand from China. Nick Purves of fund manager RWC Partners says that investors looking at China need to assess the risks and rewards and whether companies have the balance sheets and starting valuations to withstand disruption. "Markets don't think there will be a credit crunch in China – although there absolutely could be," adds Purves. "The accumulation of credit has been astounding over the last five years."

East meets west

The slowing growth in China and the Ukraine crisis unnerved investors in the Nikkei 225 Stock Average, which lost 3.3% on Friday to close at 14,328 points and ended its worst week since July last year with a total loss of 6.2%. The index has lost 12% so far this year, although this comes off a high of 16,320 points at the end of 2013. Japan's financial markets remain sensitive to changes in global investor sentiment as large amounts of international capital move rapidly in and out of Tokyo. The yen as a perceived safe-haven currency also gained against the dollar, and put pressure on Japanese exporters as trade figures weakened.

In New York, the S&P 500 index lost 0.3% on Friday and ended the week down 1.6% at 1,841 points as developments in China and Ukraine offset positive US retail sales and unemployment data. However, Wall Street remains bullish with the index only slightly off its 52-week high of 1,888 points, set earlier this month, and the 1,900 level that would mark a new record in its six-year rally. The demand for perceived safe-haven assets as shelter from Russian and Chinese risks also pushed down yields, which move inversely to price, on 10-year US Treasuries by 14 basis points to 2.65%.

There was promising news from Asia for US investors as Chinese e-commerce giant, Alibaba, announced its listing in New York rather than Hong Kong to make it a "more global company and enhance its transparency". The flotation of the world's largest online retailer, with more than 500 million customers, is expected later this year and anticipated to generate more than $15 billion, which would rank the initial public offering (IPO) alongside Visa's, which raised $17.9 billion in 2008, and Facebook's $16 billion in 2012. Sina Weibo, China's answer to Twitter, also announced plans for a $500 million listing in the US.

Cold war?

Global markets last week looked uncertain about the impact of sanctions on Russia and how tit-for-tat retaliation would hit Europe's businesses, economy and markets. Russia warned on Friday that it was prepared to intervene in eastern Ukraine, ahead of US–Russian crisis talks in London. The EU has already drawn up a list of senior Russian officials who could be subjected to travel bans and asset freezes. With Europe relying on Russia for a third of its gas supply, Moscow is in a position to retaliate with sanctions against the West. "Sanctions against Russia could drive up commodity prices and therefore weaken the nascent recovery in Europe," warns head of investment strategy, Franz Wenzel, at fund manager AXA Framlington.

Russian companies, including financial and energy groups, are pulling out billions of dollars from Western banks. Federal Reserve Bank of New York data showed a record weekly drop in foreign holdings of US Treasuries, prompting speculation that Russia has reduced its dollar reserves ahead of sanctions. Treasuries held by foreign institutions had fallen by $104.5 billion last week – the previous weekly record drop was $32 billion in mid-2013. Russia is thought to have moved these holdings to third parties to avoid the risk of a freeze on its assets. Meanwhile, US banks last week were engaged in heavy selling of Russian bonds. The Bank for International Settlements reports that US institutions have $75 billion of exposure in Russia.

Goldman Sachs estimates that capital flight from Russia this year could be double that of 2013 and reach $130 billion, with outflows this year already up to $50 billion. Meanwhile, Russia's MICEX index was down 7.6% over the week. The Moscow index has lost more than 16% in the past three weeks and 20% this year, the rouble is near a record low to the dollar, and yields on 10-year government bonds have spiked to 9.7% as capital moves out of Russia. Investor nervousness that Europe's fragile economy will struggle with sanctions pushed the pan-European FTSEurofirst 300 index down 0.7% on Friday for a five-day drop of 3.2% to 1,284 points.

London-grad

Anxiety over the Ukraine crisis took its toll on the FTSE 100 index, with its international stocks – including financials, airlines, food and beverage conglomerates and miners – losing ground. There is concern that sanctions against Moscow would also hurt businesses that trade within the wider central and east European region. Nearer home, the UK's supermarket shares dipped as they drifted towards their own Continental war, with Wm Morrison issuing a profit warning and the latest among its peers to cut prices to compete with European discounters. Nigel Ridge of fund manager BlackRock says the discounters operate on gross margins of 20%, which undercut the big supermarkets by around 15%. "We are seeing a price war between the big players," says Ridge. The FTSE 100 closed 0.4% lower at 6,528 points on Friday, which took the week's total losses to 2.8% – its biggest drop since June 2013. Miners over the week sustained the largest drop of 0.6%.

Russian investors are a mainstay in London's markets, and the prospect of EU-wide sanctions on individuals raised speculation about the effect this would have on their investments in the capital. Wealthy Russians have flocked to London in the years since the fall of communism, attracted by its accessibility (four hours from Moscow), security (safe-haven property) and lifestyle (football, bling and schools); and denizens of City bankers, lawyers, accountants and advisers to help manage personal and business empires and battles. There is a suspicion, aired in the US, that the City is more concerned about remaining open to Russian money than sanctions. Financial services are vital to Britain's economy, generating overall revenues, by TheCityUK's measure, of £80 billion last year; of which Russian money of varying provenance is an undeniable feature.

However, London's world status does not hinge on any one wave of arrivistes. Of more concern, as Bank of England governor Mark Carney made clear to the Treasury Select Committee in his grilling last week over foreign exchange rigging, is that London polices its reputation as a centre for global finance. However, the capital has lost its top position to New York in a survey of metropolitan competitiveness, the Global Financial Centres Index, due to political uncertainty (the Scottish and mooted European referendums), financial amorality (Forex and LIBOR) and populist envy (City pay). Russians will come and go, but the Canadian governor is right that reputation is a long-term investment that needs protection if it is to pay in the future.

Dividend divides

One of the paradoxes of the investment world is that Warren Buffett has, through Berkshire Hathaway, happily invested in dividend-paying companies but has not paid a dividend in more than 40 years. Buffett has said that Berkshire would only pay a dividend when it runs out of places in which to invest. Instead, he likes to use his cash to buy up companies. Last week, investors in Berkshire filed proposals that stated that the corporation has more money than it needs – more than $40 billion in cash – and they wanted a "meaningful" dividend. Unsurprisingly, Berkshire's board is recommending its shareholders vote against the proposal in May.

Meanwhile, dividend payments from global corporates look good amid improved earnings and recovery in the developed nations. Recent estimates for global dividends are of payments in excess of $1 trillion in 2013. Financials paid the most in 2013, with $218 billion handed back to investors, followed by oil and gas ($125 billion), consumer basics ($103 billion) and telecommunications ($82 billion. The top ten companies last year accounted for $97 billion and were led by Royal Dutch Shell followed by Exxon Mobil, Apple, China Construction Bank, HSBC, China Mobile, Vodafone, AT&T, Santander and General Electric.

In the UK, dividend payments dipped slightly in 2013 to £80 billion, although its companies' payments represent around 11% made globally. But, despite weaker profits in 2012 and fewer special dividend payments, UK plcs view dividend cuts as bad for investor relations. Also, balance sheets remain cash laden with £74 billion in FTSE 100 companies alone, according to Capita Asset Services. The five top-paying companies – Royal Dutch Shell, HSBC, Vodafone, BP and Glaxosmithkline – contributed £29 billion, or 36% of the total. With a recovery of profitability among UK firms, 2014 looks good for dividend payments, as it does globally.

'Extraordinary times'

Britain can expect little in the way of handouts from the annual Budget on Wednesday. Chancellor George Osborne has stuck to his message that the UK is only halfway through the austerity plan launched in 2010, although he contends that his economic plan is working. Although the budget deficit is down to £110 billion from £157 billion in 2010, he indicated that austerity may last until 2020. Osborne is expected to restrict his largesse to an increase in the Income Tax allowance and an extension on business investment tax break.

Meanwhile, last week brought scant relief for savers hoping for a change in the Bank Rate. Carney reaffirmed to MPs that the present low rate would stay in place to ensure the economic recovery. Markets do not expect a rise until spring next year. Carney reiterated that rates would rise gradually to a level in the 2% to 3% range, below the pre-crisis average of 5%. He acknowledged that this level would still be tough for savers. "We will still be living in extraordinary times a few years down the road," Carney told MPs.

Savers and investors could find the Budget brings a lifetime cap on ISAs. But, in the meantime, investors have an allowance this year of £11,520 available up to the 5 April deadline. There remain few giveaways in these "extraordinary times", and a tax-free allowance has to be a welcome opportunity for UK savers and investors.

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