FP FINANCIAL PARTNERS

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Newsflash

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Table of Contents

Growing political uncertainty in Europe during April threatened to take the shine off last quarter's gains. Dutch Prime Minister Mark Rutte's resignation on the last day of the month pitched another core Eurozone government into confusion, whilst in France investors readied themselves for the likelihood (now proven reality) of a change in leadership. The second round of France's presidential elections was contested on Sunday 6 May between incumbent Nicolas Sarkozy and Socialist challenger Francois Hollande, after the latter took the first round with 28.5% of the vote. In a potential sign of growing unrest amongst electorates in the region, Marine Le Pen's far right Front National party came third with a record showing of 18.1%. Whilst politics is often depicted as a race to occupy the centre ground, especially in times of plenty, the perceived capitulation of centrist politics may instead be pushing European voters towards the fringes.

Global equities suffered their first down month in 2012 during April, as the global aggregate declined by 1.1% in US dollar terms. Developed Asia was the only region to post gains, whilst elsewhere markets traded lower by between 0.3 and 5.9 per cent. Emerging markets fell by 1.2% over the period, with stocks in Latin America declining by 3.8% in US dollar terms. In contrast, global government bonds rallied by 1.6%, to edge into positive territory for the year, as investors increased their demand for perceived 'safe haven' assets.

Economic data has softened in recent months, although the outlook for global growth still remains evenly balanced. US gross domestic product grew by 2.2% (annualised) in the first quarter, behind forecasts for growth of 2.5%, and confirming the sluggish nature of the recovery. The ADP employment report, which compiles payroll data from approximately 365,000 of ADP's (Automatic Data Processing) 500,000 US business clients, disappointed forecasters, with 119,000 new jobs added in April versus 170,000 expected. The ISM manufacturing index, however, continues to outperform, registering 54.8 in April up from 53.4 the previous month. The strength of this series in the next few months will help decide whether fears over the persistence of the current uptick in activity are founded. Economic data has demonstrated an apparent seasonal bias in recent years, with strong reports at the start of the calendar year giving way to more depressed levels of activity from then onwards. The Citigroup US Economic Surprise index, which aggregates both the direction and size of deviations of actual data releases from consensus forecasts, appears to endorse this trend in the past two years. Researchers have suggested that the levels of seasonally adjusted series, of which the ISM is one, may be being distorted by events in 2008, and in particular the rapid deterioration in forward-looking indicators following the collapse of Lehman Brothers in September. Incorporating this data point when forecasting 'normalised' levels of activity at different times of year leads to the spurious conclusion that activity is habitually lower around September. Other one-off effects that may have had a bearing on economic activity in the US during the first quarter include the unseasonably warm spring, and changes to the tax code at the end of March, which created the incentive for companies to bring forward a portion of planned spending.

Europe's roll call of countries in recession has grown to include Cyprus, the Czech Republic, Denmark, Greece, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and the United Kingdom, or approximately half of the Union based on contribution to aggregate gross domestic product. Germany is at risk of joining this list, after its economy contracted by 0.2% in the three months to the end of December. Only Belgium and Estonia have reported positive first quarter growth figures to date in 2012. This is a difficult time for governments, as faltering growth leads to lower tax receipts, whilst higher unemployment requires the state to increase its spending on social welfare. In sum, the need to borrow money may continue to rise in spite of government belt tightening. The average debt of the 17 nation euro area rose to 87.2% of GDP in 2011, up from 85.3% in 2010 and its highest level since the introduction of the single currency in 1999.

Eurozone unemployment rose by 169,000 in March to 17.4 million, adjusted for seasonal variations in employment levels. The latest figures from Europe's statistics office confirmed the 11th consecutive month-on-month rise in unemployment, to leave the number of people out of work at a new euro era high. Data from purchasing managers remains weak, with the Eurozone manufacturing PMI falling from 47.7 in March to 45.9 in April, its lowest level in almost three years. Spain's IBEX index traded through its March 2009 lows during the final week of the month. Standard and Poor's (S&P) downgraded 11 Spanish banks on the last day of April, following its decision to cut Spain's sovereign rating the previous week. The agency chose to downgrade Spanish government debt by two notches to BBB+ (negative outlook), following its double notch downgrade in January. To put these moves into context, Spain went into 2008 with a triple-A from all three major ratings agencies.

In Asia, China's official manufacturing PMI rose for the fifth month in a row in April, to 53.3 up from 53.1 in February. HSBC's manufacturing index, which has a bias towards small and medium sized companies, rose to 49.3 from 48.3 previously, indicating continued modest contraction. The Bank of Japan announced additional asset purchases of JPY 10 trillion during the last week of the month. Bank officials were equally bullish on the prospects for inflation to rise to 1%, a positive sign for an economy that has experienced persistent deflation since 1998. South Korea's GDP grew by 0.9% last quarter in line with market expectations. Nonetheless, the year-on-year increase in gross domestic product of 2.8% represents the country's weakest rate of growth in two and a half years.

Source: Momentum Global Investment Management / Bloomberg/ April 2012

Companies continue to make money in this environment. As we approach the end of earnings season in the US, 69% and 71% of S&P 500 companies have beaten sales targets and earnings per share targets respectively, on par with the strongest earnings season since the second quarter of 2010. Average margins are yet to moderate, and have persisted above their long run average since late 2009

Global property securities gained 2.4% last month in US dollar terms, led by Australia which saw stocks rallying in anticipation of cheaper financing from the Reserve Bank of Australia (RBA). The RBA cut its benchmark lending rate by 50 basis points to 3.75% at the start of May. Whilst consensus expectations had suggested a 25 basis point cut, only 2 of the 29 economists polled by Bloomberg foresaw the eventual half point reduction in rates. Listed property failed to add diversification to investors' portfolios in 2011, with returns moving in tight formation with the broader equity market. Indeed, of the 10 sectors in the Global Industry Classification Standards, the range of correlations to the broader market was between 0.84 and 0.99 in 2011. Over the preceding 12 years, however, investing in sectors has offered more genuine diversification opportunities for investors.

In currency markets, the yen appreciated by 3.1% versus the US dollar. Despite the sizeable depreciation of the pound in recent years, UK exports have not seen a strong rebound, perhaps due to the importance of Europe as a destination for British exports and the reduced size of the country's manufacturing base.

Commodities fell by 0.7% last month, with oil and gold prices declining by 3.2% and 0.7% respectively. Talks between Iran and six leading countries at the start of April were described as constructive by EU diplomatic chief Baroness Ashton. The news appeared to catalyse a fall in oil prices, with Brent crude for delivery in June declining by 2.0% over the remainder of the month. Developments in Argentina were less positive for the global oil supply, as the government announced plans to seize control of YPF, the country's largest oil group, from Spanish company Repsol. The move is likely to discourage foreign capital from investing in Latin America's second largest economy, and may cast a pall over the region, an area well-known for populist/socialist politics.

Source: Momentum Global Investment Management / Bloomberg / April 2012

Asset Class Performances

Asset Class/Region	Index	Currency	Currency Return: Week ending 18 May	Currency Return: Month to date	Currency Return: YTD 2012
Developed Markets Equities					
United States	S&P 500 NR	USD	-4.2%	-7.2%	3.6%
United Kingdom	FTSE All Share TR	GBP	-5.4%	-7.8%	-2.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.8%	-6.6%	-1.4%
Japan	Topix TR	JPY	-4.3%	-9.8%	0.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	-6.4%	-11.1%	0.5%
Global	MSCI World NR	USD	-5.1%	-8.7%	0.7%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	-9.3%	-15.7%	-2.2%
Emerging Asia	MSCI EM Asia NR	USD	-5.6%	-10.3%	1.5%
Emerging Latin America	MSCI EM Latin America NR	USD	-8.0%	-13.3%	-4.4%
BRICs	MSCI BRIC NR	USD	-6.7%	-13.2%	-3.0%
Global Emerging Market	MSCI EM (Emerging Markets) NR	USD	-6.5%	-11.4%	-0.1%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.7%	1.2%	1.4%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.0%	1.2%	4.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	0.2%	3.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-1.7%	-1.2%	5.2%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.5%	2.7%	1.0%
UK Corporate (Investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.1%	1.0%	3.7%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5%	0.2%	3.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.7%	-0.3%	5.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-2.1%	-1.9%	10.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.6%	1.5%
Australian Government	JP Morgan Australia GBI TR	AUD	1.2%	3.1%	4.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.0%	-0.1%	0.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.4%	-0.7%	1.2%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-2.8%	-4.7%	2.9%
Emerging Market Bonds	JP Morgan EMBI +	USD	-1.9%	-2.4%	3.4%

Source: Momentum Global Investment Management Limited / Bloomberg / Lipper Hindsight. April 2012

Asset Class/Region	Index	Currency	Currency Return: Week ending 18 May	Currency Return: Month to date	Currency Return: YTD 2012
Property					
US Property Securities	MSCI US REIT TR	USD	-6.9%	-6.8%	5.8%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-3.6%	-2.0%	8.7%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-3.4%	-2.9%	4.4%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	2.5%	-2.2%	10.9%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-4.4%	-9.9%	7.7%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	-5.7%	-7.5%	6.9%
Currencies					
Euro		USD	-1.7%	-3.9%	-2.0%
UK Pound Sterling		USD	-1.8%	-2.7%	1.7%
Japanese Yen		USD	0.8%	0.7%	-2.9%
Australian Dollar		USD	-2.0%	-5.3%	-3.8%
South African Rand		USD	-3.0%	-6.9%	-30%
Swiss Franc		USD	-1.7%	-3.9%	-1.0%
Chinese Yuan		USD	-0.3%	-0.3%	-0.5%
Commodities					
Commodities	RICI TR	USD	-0.5%	-6.3%	-2.2%
Agricultural Commodities	RICI Agriculture TR	USD	3.9%	-2.3%	-1.9%
Oil	ICE Crude Oil CR	USD	-3.5%	-8.9%	1.4%
Gold	Gold index	USD	0.4%	-3.7%	3.8%
Hedge Funds	HFRX Global Hedge Fund	USD	-0.9%	-1.7%	1.5%
Interest Rates				**Current rate**	**Change at meeting**
United States	25 April 2012	USD		0.25%	-
United Kingdom	10 May 2012	GBP		0.50%	-
Eurozone	03 May 2012	EUR		1.00%	-
Japan	27 April 2012	JPY		0.10%	-
Australia	01 May 2012	AUD		3.75%	-
South Africa	29 March 2012	ZAR		5.50%	-

Momentum Global Investment Management / Bloomberg / Lipper Hindsight. April 2012

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