

# Weekly Review

Week ending 2<sup>nd</sup> March 2012

Global equities broke from their run of positive weeks on Friday, as muted local currency returns combined with broad based gains by the US dollar left markets down 0.1% in US dollar terms. Emerging markets added 1.2% over the week, with all major EM regions rising strongly during February. Gains for equity investors have followed a relatively smooth path since the start of the year; with respect to the S&P 500 index, of the 42 trading sessions to date in 2012, the index has only seen daily movements greater than  $\pm 1\%$  on four occasions. On 30 of those 42 days, the S&P 500 has posted a daily move of less than 0.5%.

Global government bonds fell by 0.4% last week in US dollar terms, with moves again largely attributable to the strength of the US dollar reporting currency. The market's attention was focused on the European Central Bank (ECB) ahead of its second Long Term Refinancing Operation (LTRO). The first LTRO in December saw uptake of loans worth EUR 489 billion, of which circa EUR 190 billion was net new liquidity, and catalysed the rally in equities that has dominated the start of 2012. Wednesday's auction saw EUR 530 billion of cheap three year loans extended to 800 European banks, making it larger both in terms of size and participation from the banking community compared to the first auction in December. Net new liquidity added to the system is estimated to have been around EUR 314 billion. Italian and Spanish 10 year bond yields fell by 24 basis points and 14 basis points, to 4.94% and 4.85% respectively, the day after the auction.

Greek government bondholders have until 8 March to decide on whether to participate in the country's proposed bond exchange. The ECB's holdings of Greek government debt will not be subject to retroactively applied collective action clauses, which has the effect of making the bank a senior creditor. The subordination of private holders limits the prospects for Greece and other recipients of bailouts of returning to private markets for future financing needs. Germany's parliament voted in favour of Greece's loan deal on Monday, by 496 votes to 90. So far the International Swaps and Derivatives Association (ISDA), which governs derivatives including the closely watched credit default swap (CDS) contracts, has advised that no credit event has been triggered for Greek government bonds. ISDA indicated, however,

that its judgment was by no means final and may change depending on events in the coming weeks.

The Group of Twenty nations (G20) rejected calls from Eurozone leaders to increase the International Monetary Fund's (IMF) lending resources last week. IMF stakeholders would like to see the size of Europe's permanent bailout facility, the European Stability Mechanism (ESM), increased from its current level of EUR 500 billion, before committing new resources to the international lender. Germany, which has previously opposed an increase in contributions by euro members, has agreed to review the size of the fund in March. Elsewhere in Europe, Ireland's prime minister announced a referendum on the 'Fiscal Compact', the new EU budget discipline treaty, on Wednesday, after seeking advice from the country's attorney general. Euro leaders had hoped to avoid a drawn out process of national referenda over the new fiscal rules. In order for the treaty changes to be approved, a minimum of 12 out of the 17 euro members are required to vote in favour.

Confidence among US consumers rose to a 12-month high in February. The US Conference Board's index rose ahead of expectations, up to 70.8 from 61.5 in January. The ISM manufacturing survey, the largest survey of US purchasing managers, disappointed economists however, with its latest reading of 52.4 in February. Federal Reserve Chairman Ben Bernanke stated on Wednesday that the fall in US unemployment had been more than expected, whilst higher gasoline prices were likely to push up inflation in the near term and weigh on consumer purchasing power. Bernanke's appearance before Congress prompted extreme volatility in gold, as expectations over further quantitative easing from the Federal Reserve were revised lower, with the precious metal posting its February high (USD 1,791 per troy ounce) and low (USD 1,688) during the same session.

Broad commodities fell by 0.9% last week. Oil rose on Friday following reports of an explosion on a pipeline in Saudi Arabia, which was later denied by Saudi officials. The rise of oil at the start of 2012 is likely to put pressure on consumers.

## Returns to 2 March 2012

| Asset Class/Region                  | Index  | Currency | Currency returns         |               |          |
|-------------------------------------|--|----------|--------------------------|---------------|----------|
|                                     |  |          | Week ending 2 March 2012 | Month to date | YTD 2012 |
| <b>Equities</b>                     |  |          |                          |               |          |
| United States                       | S&P 500 NR   | USD      | 0.3                      | 4.2           | 9.2      |
| United Kingdom                      | FTSE All Share TR                                    | GBP      | -0.2                     | 4.3           | 7.9      |
| Continental Europe                  | MSCI Europe ex UK NR                                 | EUR      | 0.7                      | 4.7           | 10.4     |
| Japan                               | Topix TR   | JPY      | 0.5                      | 10.7          | 15.0     |
| Asia Pacific (ex Japan)             | MSCI Pacific ex Japan TR                             | USD      | 0.4                      | 4.5           | 13.6     |
| Global                              | MSCI World NR  | USD      | -0.1                     | 4.9           | 10.1     |
| <b>Emerging Market Equities</b>     |  |          |                          |               |          |
| Emerging Europe                     | MSCI EM Europe NR                                    | USD      | 0.7                      | 8.3           | 24.9     |
| Emerging Asia                       | MSCI EM Asia NR                                      | USD      | 1.1                      | 5.7           | 16.6     |
| Emerging Latin America              | MSCI EM Latin America NR                             | USD      | 1.6                      | 5.2           | 20.2     |
| BRICs                               | MSCI BRIC NR   | USD      | 0.6                      | 6.4           | 21.8     |
| Global emerging markets             | MSCI EM (Emerging Markets) NR                        | USD      | 1.2                      | 6.0           | 18.1     |
| <b>Bonds</b>                        |  |          |                          |               |          |
| US Treasuries                       | JP Morgan United States Government Bond Index TR     | USD      | 0.1                      | -0.7          | -0.3     |
| US Treasuries (inflation protected) | Barclays Capital U.S. Government Inflation Linked TR | USD      | -0.4                     | -0.4          | 1.7      |
| US Corporate (investment grade)     | Barclays Capital U.S. Corporate Investment Grade TR  | USD      | 0.5                      | 0.8           | 3.2      |
| US High Yield                       | Barclays Capital U.S. High Yield 2% Issuer Cap TR    | USD      | 0.5                      | 2.4           | 5.6      |
| UK Gilts                            | JP Morgan United Kingdom Government Bond Index TR    | GBP      | 0.2                      | -1.4          | -1.1     |
| UK Corporate (investment grade)     | BofA Merrill Lynch Sterling Non Gilts TR             | GBP      | 0.5                      | -1.4          | -1.1     |
| Euro Government Bonds               | Citigroup EMU GBI TR                                 | EUR      | 1.4                      | 1.6           | 4.1      |
| Euro Corporate (investment grade)   | Barclays Capital Euro Aggregate Corporate TR         | EUR      | 0.5                      | 0.9           | 3.0      |
| Euro High Yield                     | BofA Merrill Lynch Euro High Yield Constrained TR    | EUR      | 1.7                      | 4.4           | 12.0     |
| Japanese Government                 | JP Morgan Japan Government Bond Index TR             | JPY      | 0.1                      | 0.1           | 0.2      |
| Australian Government               | JP Morgan Australia GBI TR                           | AUD      | -0.1                     | -1.1          | -1.7     |
| Global Government Bonds             | JP Morgan Global GBI                                 | USD      | -0.4                     | -1.1          | -0.3     |
| Global Bonds                        | Citigroup World Broad Investment Grade (WBIG) TR     | USD      | -0.3                     | 0.0           | 1.1      |
| Global Convertible Bonds            | UBS Global Convertible Bond                          | USD      | -0.2                     | 2.6           | 8.5      |
| Emerging Market Bonds               | JP Morgan EMBI +                                     | USD      | 1.0                      | 2.7           | 4.9      |

Source: Momentum Global Investment Management / Lipper Hindsight, March 2012.

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|----------------------------------|--|----------|--------------------------|---------------|----------|
|                                  |  |          | Week ending 2 March 2012 | Month to date | YTD 2012 |
| <b>Property</b>                  |  |          |                          |               |          |
| US Property Securities           | MSCI US REIT TR                            | USD      | -0.7                     | -1.2          | 5.6      |
| UK Property Securities           | FTSE EPRA/NAREIT United Kingdom TR         | GBP      | 0.5                      | 1.3           | 8.8      |
| Europe ex UK Property Securities | FTSE EPRA/NAREIT Developed Europe ex UK TR | EUR      | 1.7                      | 0.7           | 6.0      |
| Australian Property Securities   | FTSE EPRA/NAREIT Australia TR              | AUD      | 1.3                      | 2.2           | 8.6      |
| Asia Property Securities         | FTSE EPRA/NAREIT Developed Asia TR         | USD      | 0.2                      | 10.0          | 21.2     |
| Global Property Securities       | FTSE EPRA/NAREIT Developed CR              | USD      | -0.1                     | 3.5           | 11.6     |
| <b>Currencies</b>                |  |          |                          |               |          |
| Euro                             |  | USD      | -1.9                     | 2.2           | 1.7      |
| UK Pound Sterling                |  | USD      | 0.0                      | 1.2           | 2.0      |
| Japanese Yen                     |  | USD      | -1.1                     | -5.8          | -5.7     |
| Australian Dollar                |  | USD      | 0.4                      | 1.7           | 4.9      |
| South African Rand               |  | USD      | 0.9                      | 4.7           | 7.3      |
| Swiss Franc                      |  | USD      | -2.0                     | 2.1           | 2.4      |
| Chinese Yuan                     |  | USD      | 0.0                      | 0.2           | -0.1     |
| <b>Commodities</b>               |  |          |                          |               |          |
| Commodities                      | RICI TR                                    | USD      | -0.9                     | 4.4           | 8.0      |
| Agricultural Commodities         | RICI Agriculture TR                        | USD      | 1.2                      | 1.4           | 2.7      |
| Oil                              | ICE Crude Oil CR                           | USD      | 0.4                      | 10.9          | 15.5     |
| Gold                             | Gold Index                                 | USD      | -3.6                     | 1.5           | 11.9     |

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