Weekly Review

Week ending 2nd December 2011

All eyes remained on Europe last week as, on the balance of probabilities, the range of mooted outcomes seemed to skew away from euro zone breakup and toward an increasing likelihood of fiscal union. The week began with reports from Germany that Chancellor Merkel and President Sarkozy are planning a Stability Pact to provide the much needed 'line in the sand' for markets. This new impetus towards greater fiscal union appears to be a precursor to greater ECB intervention in capital markets. Indeed on Wednesday last week, ECB President Mario Draghi suggested that a closer fiscal integration of the Union could be the key to a more aggressive ECB. Interestingly, over the weekend, it has been reported that Italy's new government has approved new austerity measures and reforms which may be the first of a number of such initiatives from the more embattled members of the euro zone in order to enable the ECB's enhanced operations. This week sees the build up to the European summit on 9 December and many commentators are expecting this to take last week's increasing mention of the phrase 'treaty change' further. This would ultimately push the EU towards consolidation by requiring (and enforcing) stricter fiscal and borrowing discipline for EU members. Last week the market appeared to become optimistic that these changes would ultimately occur and that they would be sufficient to reduce many of the concerns presently hanging over the Union. To actually make these changes, however, will take a reasonable amount of time and therefore the markets must remain patient.

On the final day of November the central banks of the US, Europe, UK, Japan, Canada and Switzerland agreed to lower the cost of temporary USD liquidity lines by 50 basis points. The move was aimed at easing some of the dollar funding stresses that are being experienced presently, especially in Europe. Such action has a resonance with the coordinated interest rate cut undertaken by many central banks in October 2008. This move released some of the pressure building on financials struggling to find affordable short term financing.

Last week's positive turn in markets came despite the US's credit rating being moved from AAA Stable to Negative on Monday night by Fitch. This is perhaps not surprising as the US's downgrade by S&P in August did not have a material impact on yields.

The corporate sector also experienced a number of downgrades as S&P cut the ratings of a group of large global banks including the holding companies of Bank of America, Citigroup, Goldman Sachs and Morgan Stanley which all experienced a single notch rating cut. Staying with the US, much of the macroeconomic data provided positive surprises last week, with Conference Board Consumer Confidence hitting 56.0 in November, up from 40.9 in October. Furthermore, the Jobs Hard to Get index fell to 42.1 from 46.9. The Chicago Purchasing Managers' Index increased in November with a print of 62.6, whilst ADP Employment data also surpassed expectations.

Meanwhile, almost in the shadow cast by the western world's debt woes, the global tensions with Iran stepped up last week as concern grew over the country's nuclear programme. After greater embargoes were placed on any Iranian capital sources including bank accounts in the UK and US, Iranian's attacked the British Embassy in Tehran. Subsequently, the UK ejected all of Iran's diplomatic staff from London. Whilst any further escalation of these tensions seems unlikely for now, at least in a military sense, Iran's Foreign Minister threatened over the weekend that oil would surge above USD 250 per barrel if nations started banning its crude exports. Iran is presently the world's fifth largest oil producer and therefore any meaningful restrictions on their exports would have a significant impact on oil supply.

Despite these concerns, the better news from Europe combined with the reduced swap rate, reasonable data releases, and generally more positive sentiment, drove bourses higher over the week. Overall the performance of the markets was symptomatic of a more risk seeking mindset; the MSCI World index gained 8.2% in US Dollars, while the MSCI Emerging Markets Index returned 9.5%. Most of the major indices provided similar positive returns in their respective local currencies with Japan's return of 5.3% providing the greatest underperformance. Global government bonds provided a small positive return as the US dollar fell somewhat against most other major currencies. The European government bond subset of the global index returned 3.2% in euro terms. The listed property markets underperformed the gains of the broader index with a return of 7.2%. Commodities were also in positive territory, with a gain of 3.4%. Gold gained 3.9%, whilst oil added 1.5%.

Source: Momentum Global Investment Management / Lipper Hindsight. November 2011.

Returns to 2 December 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 2 Dec 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	**USD**	7.4	-0.2	0.3
United Kingdom	FTSE All Share TR	**GBP**	7.4	0.7	-3.6
Continental Europe	MSCI Europe ex UK NR	**EUR**	9.5	0.2	-13.2
Japan	Topix TR	**JPY**	5.3	2.2	-15.3
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	9.8	4.7	-11.4
Global	MSCI World NR	**USD**	8.2	0.3	-5.2
Global Emerging Markets	MSCI World Emerging Markets NR	**USD**	9.5	3.5	-14.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.3	0.2	9.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.3	0.3	14.2
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	0.7	6.6
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	1.6	0.8	3.0
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.5	-0.7	13.8
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.3	-0.4	4.5
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	3.2	1.4	0.9
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.9	0.8	-0.3
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	1.2	0.9	-4.5
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.0	0.2	1.7
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.8	-0.7	12.6
Global Government Bonds	JP Morgan Global GBI	**USD**	0.9	0.2	6.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.0	0.2	5.2
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	3.2	0.2	-6.2
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.5	0.5	8.3

Source: Momentum Global Investment Management / Lipper Hindsight. December 2011.

Returns to 2 December 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 2 Dec 2011	Month to date	YTD 2011
Property					
US Property Securities	MSCI US REIT TR	USD	6.0	-1.0	1.9
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	8.4	0.0	-3.0
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	9.6	-0.4	-12.4
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	5.1	1.4	2.0
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	7.4	2.9	-15.7
Global Property Securities	FTSE EPRA/NAREIT Developed CR	USD	7.2	0.4	-6.3
Currencies					
Euro		USD	1.2	-0.2	0.1
UK Pound Sterling		USD	0.9	-0.6	-0.2
Japanese Yen		USD	-0.3	-0.4	4.0
Australian Dollar		USD	5.2	-0.1	0.1
South African Rand		USD	6.0	1.0	-17.5
Swiss Franc		USD	1.5	-0.9	1.4
New Zealand Dollar		USD	5.0	0.3	-0.2
Commodities					
Commodities	RICI TR	USD	3.4	0.1	-5.1
Agricultural Commodities	RICI Agriculture TR	USD	1.8	-0.1	-17.6
Oil	Brent Crude Index (ICE) CR	USD	1.5	-0.8	17.1
Gold	Gold Index	USD	3.9	0.1	23.8

Source: Momentum Global Investment Management / Lipper Hindsight. December 2011.

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