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Weekly Review

Week ending 3rd August 2012

For the second week in a row, equities staged a late rally on Friday to pull themselves into positive territory for the period. US stocks rose by 1.9%, whilst Europe once again enjoyed the best of the day's gains as major bourses in Italy, Spain and France added close to 5%. The MSCI World index ended the week up 0.8%, with emerging markets having rallied by 1.2%. Meanwhile credit, high yield and emerging market debt all outperformed global government bonds, as the risk tone improved.

Global stock markets sold off on Thursday in response to the lack of firm commitments from European Central Bank (ECB) President Mario Draghi over support for Italy and Spain. Mr. Draghi's announcement that the ECB was willing to buy sovereign debt alongside local governments, without subordinating existing bond holders, failed to prevent Spanish ten year yields from rising by 43 basis points, their biggest one day gain since at least 1993. Peripheral European government bond spreads had narrowed significantly in the build up to Thursday's meeting, following Mr. Draghi's pledge to "do whatever it takes to preserve the euro". Some form of Central Bank assistance to help lower borrowing costs in Spain and Italy is still expected in the near term. Both countries will first need to formally ask for assistance and commit to any adjustment measures required as a condition of the ECB's support.

Mr. Draghi's comments followed yet another weak employment report from the Eurozone, as the unemployment rate rose to a new high of 11.2% in June. Commentators have debated the euro's role in exacerbating the differences between members' competitiveness. The introduction of a common currency in Europe removed the automatic stabilisation effect of floating exchange rates, which up to then had helped to smooth demand between countries. In their absence, low cost producers have benefitted at the expense of their higher cost peers, leading to rising disparity between unemployment rates in the region. For example, whilst unemployment in Germany remains at its lowest level since reunification in 1990, almost one in four Spanish workers are unable to find employment at present.

Looking back to the start of the week, Tuesday brought July to a close, with commodities, equities, bonds and the US dollar all having posted gains over the month. July's rally was led by raw materials, as corn prices rose by the most in almost a quarter of a century. Year to date, corn prices for delivery in December have risen by 37.7%, alongside gains of 25.5% for wheat.

In the US, the Federal Open Market Committee concluded its monthly meeting on Wednesday, choosing to keep its main policy rate on hold whilst offering no new guidance on the prospects for further intervention. Investors did receive some welcome clarity regarding the US government's fiscal policy, as the House of Representatives approved a one-year extension to the Bush-era tax cuts which had been set to expire in January. The Chicago purchasing managers' index (PMI) registered 53.7 versus 52.5 expected on Tuesday, raising expectations ahead of the Institute of Supply Management's (ISM) closely watched survey. Although the ISM manufacturing index subsequently underperformed forecasts, Friday's payroll surprise of 163,000 new jobs versus 120,000 expected ultimately helped to propel equities higher over the week.

The Bank of England kept interest rates on hold on Thursday. The decision to leave the quantitative easing programme at its current level was perhaps unsurprising, after the Bank raised its target for asset purchases last month. Weak demand from Europe continues to weigh on the UK manufacturing sector, prompting the biggest fall in announced activity levels by purchasing managers in three years during July.

In Asia, India suffered consecutive days of power outages at the start of the week, leaving 640 million people without electricity. The electricity network in Asia's third largest economy loses 27% of the power it carries through leakages and theft, whilst peak supply falls short of demand by 9%. China's official manufacturing PMI continues to trend downwards, with a reading of 50.1 versus 50.5 expected in July. HSBC's survey, which is biased towards small and medium sized companies, edged up to 49.3 from 48.2 in June, whilst still indicating a contraction in activity.

Source: Momentum Global Investment Management / Bloomberg, August 2012.

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Returns to 3 August 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 3 August 2012	July 2012	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	**USD**	0.4%	1.4%	11.6%
United Kingdom	FTSE All Share TRt	**GBP**	2.6%	1.3%	7.3%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.3%	4.2%	10.1%
Japan	Topix TR	**JPY**	-0.3%	-4.4%	0.6%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	1.5%	6.6%	12.2%
Global	MSCI World NR	**USD**	0.8%	1.3%	8.1%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	1.9%	2.1%	10.9%
Emerging Asia	MSCI EM Asia NR	**USD**	1.6%	2.0%	5.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-0.6%	1.3%	2.3%
BRICs	MSCI BRIC NR	**USD**	1.0%	1.3%	2.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	1.2%	2.0%	6.0%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.1%	1.1%	2.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.5%	2.0%	6.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.2%	2.9%	7.2%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.8%	1.9%	9.6%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.1%	2.1%	3.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.4%	3.9%	8.9%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.5%	1.6%	5.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.6%	2.4%	8.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	1.5%	2.1%	14.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1%	0.4%	2.1%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.5%	0.0%	5.3%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.0%	1.0%	1.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.1%	0.9%	2.1%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	0.1%	0.8%	6.2%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.4%	4.4%	12.4%

Source: Momentum Global Investment Management / Lipper Hindsight. August 2012.

Returns to 3 August 2012

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 3 August 2012	July 2012	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	0.9%	1.9%	17.2%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.9%	5.3%	22.8%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.4%	6.2%	19.9%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.3%	5.5%	22.2%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	2.2%	5.9%	25.1%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	1.4%	3.6%	20.1%
Currencies					
Euro		**USD**	-0.2%	-3.0%	-4.9%
UK Pound Sterling		**USD**	-0.7%	-0.1%	0.4%
Japanese Yen		**USD**	0.0%	2.2%	-2.1%
Australian Dollar		**USD**	1.1%	2.7%	2.9%
South African Rand		**USD**	0.3%	-0.4%	-1.0%
Swiss Franc		**USD**	-0.3%	-3.0%	-3.9%
Chinese Yuan		**USD**	0.1%	-0.1%	-1.2%
Commodities					
Commodities	RICI TR	**USD**	0.5%	5.8%	1.3%
Agricultural Commodities	RICI Agriculture TR	**USD**	0.5%	9.9%	9.7%
Oil	ICE Crude Oil CR	**USD**	1.1%	14.9%	-1.1%
Gold	Gold Index	**USD**	1.0%	1.5%	4.6%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.0% *	0.5%	1.7% *

* Estimate

Source: Momentum Global Investment Management / Lipper Hindsight. August 2012.

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