

# Weekly Review

Week ending 5<sup>th</sup> October 2012

At Ben Bernanke's latest press conference on 13 September, the Fed Chairman explicitly tied the central bank's ongoing monetary support to the level of unemployment in the US. Mr. Bernanke stated that a "sustained improvement in the labor market" would be needed in order for the central bank to exit its quantitative easing programme. Fast forward 28 days to last Friday, and unemployment duly fell by 0.3% to 7.8%, its lowest level in more than three and a half years. The number of nonfarm workers rose by 114,000 in September, versus a median estimate of 115,000, whilst hourly earnings grew ahead of economists' forecasts. The latest figures come at an opportune time for President Obama, as he begins his re-election campaign. Only one president, Ronald Reagan in 1984, has been re-elected since World War II with unemployment above 6%. The number of new jobs created by the economy each month continues to fall, however, whilst the proportion of workers taking on part-time positions as a result of the lack of full-time posts rose during September. Jack Welch, former General Electric chief executive, took to Twitter to question the integrity of the Labour Department's numbers, drawing a swift rebuff from Labour Secretary Hilda Solis.

The S&P 500 index rallied by 0.65% following the release of Friday's unemployment report, before giving back these gains to end the session lower. Spanish Prime Minister Mariano Rajoy's continued reticence on the issue of a bailout from the European Union was cited as the reason behind the late sell off by equities. The MSCI World index added 1.8% last week, led by Europe and the US. In fixed income markets, government bonds fell by 0.2%, whilst credit and high yield both rallied on the back of increased risk appetite amongst investors.

Growth assumptions used by various European governments in their budget plans have been labelled as overly optimistic by sections of the analyst community. The Spanish government, for example, is predicting only a modest contraction in GDP of -0.5% in 2013, whilst in France the economy is expected to grow by 0.8% in 2013 and by 2% the following year. Data from purchasing

managers showed activity amongst Eurozone manufacturers continuing to decline in September, although the data was better than economists' had expected and an improvement on August's figures. Both the so-called 'core' (Germany and France) and periphery (notably Italy) exceeded consensus forecasts.

The outlook for the UK economy appears to be improving. Indeed, the front cover of the Economist carried the headline "Heading out of the storm: better news for the UK economy". According to the magazine, "The British economy is coming out of recession, and is stronger than almost everyone believes", with consumer spending expected to rise over the coming months. All 37 independent forecasting groups which provide GDP forecasts to the Treasury expect UK growth to bounce back in 2013. Central bankers in the UK and Europe elected to keep benchmark interest rates on hold at their regular monthly meetings last week.

Turning to the East, the Royal Bank of Australia cut rates on Tuesday, down 25 basis points to 3.25%, their lowest level since 2009. Australian coal and iron ore exports declined by 3% in August, contributing to a trade shortfall of AUD 2 billion versus consensus forecasts for a deficit of AUD 685 million.

In currency markets, reports from inside Iran suggest that the rial has depreciated by as much as 50% versus the US dollar in the past two months, as a result of economic sanctions imposed on the country. The price of imported goods, and in particular food staples, has risen sharply, leading to growing social unrest. In South Africa, the rand fell by 3% against the US dollar on Friday, after Anglo American Platinum fired 12,000 striking miners. Elsewhere, commodities declined by 0.8% over the week. West Texas Intermediate crude oil fell back below 100 dollars per barrel, following a report from the Department of Energy which showed US crude production running at its highest level since 1996.

**Returns to 5 October 2012**

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 5 October 2012	Month to date	YTD 2012
<b>Developed Market Equities</b>					
United States	S&P 500 NR	USD	1.5%	2.5%	17.6%
United Kingdom	FTSE All Share TR	GBP	2.3%	1.1%	10.7%
Continental Europe	MSCI Europe ex UK NR	EUR	2.6%	1.2%	15.7%
Japan	Topix TR	JPY	0.0%	1.8%	3.5%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	0.8%	3.9%	18.5%
Global	MSCI World NR	USD	1.8%	2.7%	15.0%
<b>Emerging Market Equities</b>					
Emerging Europe	MSCI EM Europe NR	USD	2.6%	4.7%	19.9%
Emerging Asia	MSCI EM Asia NR	USD	0.8%	7.3%	14.9%
Emerging Latin America	MSCI EM Latin America NR	USD	1.5%	3.9%	5.8%
BRICs	MSCI BRIC NR	USD	1.3%	6.5%	8.8%
South Africa	FTSE JSE All Share TR	USD	-2.5%	3.8%	9.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.7%	6.0%	12.7%
<b>Bonds</b>					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.5%	-0.4%	1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.7%	0.5%	7.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.0%	0.7%	8.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5%	1.4%	12.6%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.6%	-0.7%	2.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.0%	0.8%	10.9%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2%	1.3%	7.6%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.4%	0.8%	10.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.0%	2.3%	1.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1%	0.3%	1.8%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.2%	0.6%	6.3%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	1.0%	3.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.2%	1.2%	4.6%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.0%	1.9%	11.1%
Emerging Market Bonds	JP Morgan EMBI +	USD	1.0%	1.4%	15.5%

Source: Lipper Hindsight, October 2012.

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Asset Class/Region	Index	Currency	Currency returns		
			Week ending 5 October 2012	Month to date	YTD 2012
<b>Property</b>					
US Property Securities	MSCI US REIT NR	USD	0.2%	-0.2%	14.3%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.7%	-0.9%	22.5%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	2.4%	-0.2%	19.2%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	3.6%	1.1%	28.8%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	0.8%	6.7%	34.3%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	0.8%	1.6%	22.6%
<b>Currencies</b>					
Euro		USD	1.5%	2.1%	0.6%
UK Pound Sterling		USD	0.3%	1.7%	4.2%
Japanese Yen		USD	-1.1%	0.6%	-2.2%
Australian Dollar		USD	-1.5%	0.6%	-0.1%
South African Rand		USD	-4.8%	2.1%	-6.8%
Swiss Franc		USD	1.2%	1.4%	0.7%
Chinese Yuan		USD	0.0%	1.0%	0.1%
<b>Commodities &amp; Alternatives</b>					
Commodities	RICI TR	USD	-0.8%	0.4%	4.7%
Agricultural Commodities	RICI Agriculture TR	USD	-1.2%	-2.7%	6.7%
Oil	ICE Crude Oil CR	USD	-1.2%	-1.4%	2.4%
Gold	Gold Index	USD	0.5%	7.7%	16.5%
Hedge Funds	HFRX Global Hedge Fund	USD	0.2%*	0.4%	2.9%*

\* Estimate

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