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# Weekly Review

Week ending 7<sup>th</sup> October 2011

Global equities returned 2.0% last week in US Dollar terms, led by gains in Europe and the UK. Global government bonds rose moderately over the same period, despite falls of 0.6% by US Treasuries. Bank shares continue to attract scrutiny from investors, with the European Banking Authority reported to be preparing a new round of stress tests, including more severe haircuts on bank's holdings of peripheral sovereign debt.

Markets remain volatile and highly sensitive to the latest news. The S&P 500 index rallied by 4.1% in the last hour of trading on Tuesday, prompted by an article in the Financial Times from European Commissioner Olli Rehn, which raised the prospects of a coordinated recapitalisation of the region's banks. German Chancellor Angela Merkel was reported to be in favour of new capital injections, identifying the European Financial Stability Fund (EFSF) as a potential lender of last resort for governments that find themselves unable to raise the necessary capital.

Whilst signs of greater coordination amongst European officials were welcomed by market participants, the extent to which last week's rhetoric translates into decisive action remains to be seen. Slovakia's Freedom and Solidarity Party remains opposed to the proposed changes to the EFSF. The party holds 21 of the 77 seats in the four party governing coalition, with the coalition enjoying only a slender majority in the 150 seat Slovakian parliament.

Supranational lenders involved in Greece's bailout have postponed a decision over the disbursement of additional financial aid to the country. A planned meeting on 13 October has been cancelled, with officials now set to reconvene in Greece in the second half of the month. Elsewhere in Europe, Moody's lowered its rating of Italian government debt by three notches to A2, Negative Outlook, on Tuesday. The agency highlighted inter alia the country's funding issues, the reduced outlook for growth and the implementation risks relating to planned austerity programmes. Moody's is set to announce the outcome of its review of Spain's sovereign rating in the coming weeks. Despite the prospect of

a downgrade, the Spanish government successfully auctioned EUR 4.5 billion of two and three year bonds on Thursday, with a yield of 3.6% on the three year bond compared to 4.8% in August.

September's ISM manufacturing reading exceeded market expectations at 51.6, up from 50.6 previously, whilst the new orders component of the report remained at 49.6, indicating modest contraction. The US ADP Employment report surprised on the upside, recording 91 thousand new jobs. Employment in the service sector, however, contracted for the first time in 13 months according to the ISM report. Data from purchasing managers in Europe's service sector was generally weaker in September, falling in the Eurozone, France and Germany. China's official Purchasing Managers' indices for both manufacturing and non-manufacturing firms remained comfortably above 50 last month, indicating expansion.

UK second quarter GDP was revised down to 0.1% last week. Monetary Policy Committee member Adam Posen urged the Bank of England to introduce more quantitative easing, whilst warning against what he called "policy defeatism" in the face of current challenges to growth. The Bank returned to quantitative easing on Thursday, unveiling GBP 75 billion of new purchases, surpassing most economists' expectations. Gilt purchases will take place over the next four months, bringing the total size of the government's quantitative easing programme to GBP 275 billion.

Global property securities returned 0.1% last week. Listed property gained across most of the majors, whilst the US notably underperformed its peers, falling by 2.1%. The US Dollar was generally weaker over the period, with the South African Rand rallying by over 2%. Broad commodities enjoyed gains of 2.1%, alongside a 2.0% rise in the gold price; oil and agricultural commodities both fell.

## Returns to 7 October 2011

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 7 Oct 2011	Month to date	YTD 2011
<b>Equities</b>					
United States	S&P 500 NR	USD	2.2	2.2	-7.1
United Kingdom	FTSE All Share TR	GBP	3.1	3.1	-8.2
Continental Europe	MSCI Europe ex UK NR	EUR	2.3	2.3	-16.2
Japan	Topix TR	JPY	-2.6	-2.6	-15.6
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	1.5	1.5	-17.0
Global	MSCI World NR	USD	2.0	2.0	-10.4
Global emerging markets	MSCI World Emerging Markets TR	USD	0.4	0.4	-21.6
<b>Bonds</b>					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.6	-0.6	8.3
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.8	0.8	11.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.1	-1.1	5.0
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.8	-0.8	-2.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.8	0.8	11.6
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	-0.1	-0.1	4.5
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.4	-0.4	3.5
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.6	-0.6	-0.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	-1.5	-1.5	-7.9
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2	0.2	2.0
Australian Government	JP Morgan Australia GBI TR	AUD	0.1	0.1	10.6
Global Government bonds	JP Morgan Global GBI	USD	0.1	0.1	7.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.0	0.0	5.7
Global Convertible bonds	UBS Global Convertible Bond	USD	0.2	0.2	-8.7
Emerging Market Bonds	JP Morgan EMBI +	USD	0.7	0.7	4.5

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



## Returns to 7 October 2011

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 7 Oct 2011	Month to date	YTD 2011
<b>Property</b>					
US Property securities	MSCI US REIT TR	USD	-2.1	-2.1	-8.4
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	4.9	4.9	-3.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	3.1	3.1	-8.4
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	1.9	1.9	-3.5
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	EUR	1.5	1.5	-19.7
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	0.1	0.1	-12.2
<b>Currencies</b>					
Euro		USD	0.6	0.6	0.6
UK Pound Sterling		USD	0.3	0.3	-0.3
Japanese Yen		USD	0.4	0.4	5.7
Australian Dollar		USD	1.3	1.3	-4.0
South African Rand		USD	2.2	2.2	-15.9
Swiss Franc		USD	-0.7	-0.7	1.9
New Zealand Dollar		USD	1.6	1.6	-0.6
<b>Commodities</b>					
Commodities	RICI TR	USD	2.1	2.1	-9.3
Agricultural Commodities	RICI Agriculture TR	USD	-0.1	-0.1	-14.4
Oil	Brent Crude Index (ICE) CR	USD	-1.0	-1.0	11.0
Gold	Gold index	USD	2.0	2.0	17.1



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