Weekly Review

Week ending 8th June 2012

Markets opened higher this morning following the Spanish government's announced intention to seek formal assistance from the European Union to help with the recapitalisation of its banking sector. Whilst the details of the bailout package are yet to be finalised, support is likely to come from the two existing loan facilities, the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF). Commentators – perhaps prematurely – are already claiming a victory on behalf of the Spanish government, as the conditions of the financial assistance are expected to be less punitive than those imposed on Greece, Ireland and Portugal. A huge amount of detail still remains to be decided and, if past intervention is any guide to the future, the initial excitement may quickly give way to doubts over whether the aid is sufficient.

Disappointing employment data from the US at the start of June threatened to compound last month's equity market sell off. The US economy added 69,000 new jobs in May versus expectations for an increase of 150,000, whilst figures for March and April were revised down by a total of 49,000 jobs. The headline unemployment rate rose for the first time in 11 months, up 0.1% to 8.2%. Markets however rallied last week, with global equities adding 3.2% in US dollar terms, led by the US. In contrast, global government bonds fell by 0.9%, as rates in major economies drifted out slightly. Emerging market bonds were the beneficiaries of investor inflows, adding 2.0% over the period in US dollar terms.

Following May's sell off, markets have fallen back into the sort of territory that may prompt a new round of intervention from policymakers. Officials were generally reticent last week on the prospects for new easing, perhaps with an eye on this Sunday's Greek elections, which have the potential to pitch markets into much greater uncertainty. Monday's meeting of G7 Finance Ministers and Central Bankers produced little of note, with attendees announcing simply that they would continue to monitor developments in the Eurozone ahead of the G20 summit later this month.

More integration as opposed to less still appears to be the order of the day in Europe, despite Germany's continued opposition to joint-liability bonds (eurobonds). Policymakers have mooted using a levy on banks to raise capital for a new rescue fund, alongside a Europe-wide guarantee on bank deposits to assuage depositor fears and prevent panic withdrawals.

Both growth and inflation have slowed in emerging markets during the first half of 2012. Growth in India fell to a nine year low last quarter, at 5.3%, whilst fears over corruption (plus the pedestrian pace of the reforms agenda) continue to weigh on capital investment by companies in the country. The People's Bank of China (PBOC) cut interest rates by 25 basis points to 6.31% last week, adding to expectations for a new round of easing from Beijing. Chinese authorities injected RMB 4 trillion into the economy in 2008/09 in order to aid a V-shaped recovery, including subsidies for rural consumption and spending on infrastructure.

New spending in 2012 is unlikely to be on the same scale, in mind of the credit boom that resulted post 2009 and the political transition to take place at the end of this year. Alongside last week's interest rate cut, Chinese authorities are set to push back the imposition of tighter capital rules on banks until the start of 2013. The Chinese auto sector has been the beneficiary of new subsidies on energy efficient cars, alongside the reintroduction of the 'cash-for-clunkers' scheme to encourage auto sales. Data released over the weekend was not as weak as expected in light of the PBOC's pre-emptive easing. Fixed asset investment was broadly in line with economists' expectations, whilst exports surprised on the upside. Industrial production and retail sales alternatively disappointed.

To roundup last week's moves by major asset classes, global property securities returned 2.9%, with listed property in the US rallying by 4.4%. Major floating currencies broadly appreciated versus the US dollar, whilst nonetheless uniformly down year to date in 2012. Commodities gained 1.4% last week, despite falls by oil (-2.2%) and gold (-1.8%).

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

Returns to 8 June 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 8 June 2012	Currency returns: Month to date	Currency returns: YTD 2012
Develloped Market Equities					
United States	S&P 500 NR	**USD**	3.8%	1.2%	6.1%
United Kingdom	FTSE All Share TR	**GBP**	3.5%	2.2%	0.8%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.9%	0.7%	-0.6%
Japan	Topix TR	**JPY**	1.3%	-0.2%	-0.4%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	1.7%	1.0%	0.6%
Global	MSCI World NR	**USD**	3.2%	1.0%	1.8%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	6.1%	5.2%	0.2%
Emerging Asia	MSCI EM Asia NR	**USD**	0.3%	-1.0%	1.3%
Emerging Latin America	MSCI EM Latin America NR	**USD**	2.2%	0.0%	-4.2%
BRICs	MSCI BRIC NR	**USD**	1.6%	0.3%	-2.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	1.4%	0.1%	0.1%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.9%	-0.4%	1.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.8%	-0.2%	4.7%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.8%	-0.4%	3.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.6%	0.1%	5.1%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-1.1%	-0.4%	2.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.5%	-0.1%	4.5%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.6%	0.0%	4.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.0%	0.0%	5.9%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	0.7%	0.3%	9.9%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.1%	-0.1%	1.3%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-1.0%	-0.6%	5.3%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.9%	-0.5%	0.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.5%	-0.2%	0.8%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	1.3%	0.4%	3.0%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	2.0%	2.0%	5.0%

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

Returns to 8 June 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 8 June 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	4.4%	1.7%	10.2%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.8%	1.2%	10.1%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	2.5%	1.1%	7.8%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	0.9%	1.9%	14.0%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.0%	0.9%	10.1%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	2.9%	1.4%	9.8%
Currencies					
Euro		USD	0.8%	0.8%	-4.0%
UK Pound Sterling		USD	0.5%	0.2%	-0.8%
Japanese Yen		USD	-1.9%	-1.5%	-3.4%
Australian Dollar		USD	2.3%	1.8%	-3.7%
South African Rand		USD	2.3%	1.5%	-4.3%
Swiss Franc		USD	0.8%	0.9%	-2.9%
Chinese Yuan		USD	0.0%	0.0%	-1.2%
Commodities					
Commodities	RICI TR	USD	1.4%	-0.7%	-8.2%
Agricultural Commodities	RICI Agriculture TR	USD	3.0%	1.1%	-7.2%
Oil	ICE Crude Oil CR	USD	-2.2%	-3.5%	-6.3%
Gold	Gold Index	USD	-1.8%	1.2%	3.0%
Hedge Funds	HFRX Global Hedge Fund	USD	0.0%	-0.4%	1.1%

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

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