FINANCIAL PARTNERS

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ARMYTAGE

Weekly Review

Week ending 10th August 2012

The data lull following the publication of US payroll figures at the start of August prompted a fall in equity market volatility last week. Global equities ground higher over the period, with dollar denominated investors enjoying gains in all five trading sessions. Despite the quiet release schedule, China recorded a noteworthy disappointment, as exports underperformed all 32 economists' forecasts on Bloomberg.

Last week marked five years to the day that BNP Paribas announced to the markets that it was freezing withdrawals from three structured credit funds due to problems with pricing the underlying mortgages, an event which sent shockwaves through the financial system and is cited by many commentators as representing the start of the credit crisis. In the intervening five years, gold has been the best performing asset class, with an annualised return of 19.3% in US dollar terms. Last week also marked one year on from credit rating agency Standard & Poor's decision to downgrade the US government; as a reflection of the degree of uncertainty currently afflicting global markets, US 10 year treasury yields have fallen by 0.9% since that time, resulting in a return of over 10% to investors on an asset that was deemed to be deteriorating in quality.

Overall, equity markets finished the week up by 1.6%, with all major regions posting gains in local currency terms. The S&P 500 index ended the period less than 1% away from revisiting its year to date highs of 1,419. Emerging markets (EM) returned 2.8% over the week, led by Asia. So far as markets progress through the second half of the year, EM has outperformed its developed peers, after underperforming during the first six months of 2012. These movements have eroded the EM valuation premium – the additional cost investors are willing to bear in order to access faster growing regions – which rose as high as 15.8% on a price-to-book basis back in September 2010. Global government bonds rose by 0.1% in US dollar terms, as investors with a US reporting currency benefitted from the appreciation of foreign denominated assets. US treasuries lost ground, however, alongside falls by Japanese and Australian government bonds in local currency terms. US 10 year treasury yields increased by nine basis points to 1.7%, in line with their level back in June. Crude oil was the big winner over the week and is now the best performing asset class in the second half of the year.

On the data front, US jobless claims fell by 6,000 to 361,000 in the week ending 4 August, versus consensus forecasts for a rise to 370,000. US mortgage delinquency rates rose for the first time in a year, as the share of homeowners at least 30 days behind with their mortgage payments increased to 7.6% in the second quarter, up from 7.4% previously, according to data from the Mortgage Bankers Association. Seriously delinquent loans (90 days in arrears) were also up, rising to 3.2% from 3.1% previously. However, the path of property prices was more positive according to data from the National Association of Realtors, as the value of single-family homes increased in 75% of US cities last quarter, with prices nationally rising by the most since 2006.

In Asia, Singapore has downgraded the upper end of its 2012 growth forecast: GDP is expected to rise by between 1.5% and 2.5% this year according to Prime Minister Lee Hsien Loong, down from between 1 and 3% previously. Recapping the notable Chinese data disappointment, exports grew by 1.0% year-on-year in July, versus a median forecast of 8.0% from economists' polled by Bloomberg. Imports similarly underperformed forecasts, up by 4.7% versus 7.0% expected. A watershed moment arguably took place in Japan, as Prime Minister Yoshihiko Noda successfully passed a bill to raise the country's sales tax for the first time in 15 years. The government aims to double the 5% tax by 2015, in a tentative step towards addressing Japan's fiscal position.

In company news, Standard Chartered is embroiled in a money laundering scandal. The bank is accused by the New York Department of Financial Services of laundering USD 250 billion from Iran between 2001 and 2010, claims it strongly denies. Standard Chartered's share price initially sold off by over 20% on the London Stock Exchange as news of the story reached investors.

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

Weekly Review

Week ending 10th August 2012

Returns to 10 August 2012

			Currency returns		
Asset Class/Region	**Index**	**Currency**	**Week ending 10 August 2012**	**Month to date**	**YTD 2012**
Developed Market Equities					
United States	S&P 500 NR	USD	1.1%	2.0%	12.8%
United Kingdom	FTSE All Share TR	GBP	1.5%	4.0%	8.9%
Continental Europe	MSCI Europe ex UK NR	EUR	1.5%	3.0%	11.8%
Japan	Topix TR	JPY	3.2%	1.4%	3.8%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	1.3%	0.7%	13.7%
Global	MSCI World NR	USD	1.6%	2.3%	9.8%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	1.7%	3.7%	12.8%
Emerging Asia	MSCI EM Asia NR	USD	3.6%	2.3%	9.6%
Emerging Latin America	MSCI EM Latin America NR	USD	2.3%	3.7%	4.6%
BRICs	MSCI BRIC NR	USD	2.9%	3.4%	5.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.8%	2.9%	9.0%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.2%	-0.6%	2.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.4%	-0.7%	5.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.0%	-0.5%	7.2%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	0.6%	9.9%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	-0.2%	3.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.6%	0.4%	9.5%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.3%	0.4%	5.8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.0%	0.8%	9.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.3%	1.9%	16.2%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.4%	0.0%	1.7%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.6%	-0.7%	4.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.1%	-0.2%	1.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.1%	0.0%	2.2%
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.7%	1.0%	6.9%
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.4%	0.2%	11.9%

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

Returns to 10 August 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 10 August 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	-2.3%	-1.7%	14.4%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-0.7%	1.4%	21.9%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-0.4%	1.5%	19.4%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-0.6%	-1.3%	21.4%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	0.8%	0.8%	26.2%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	-0.8%	-0.3%	19.1%
Currencies					
Euro		USD	-0.2%	0.0%	-5.1%
UK Pound Sterling		USD	0.6%	0.1%	1.0%
Japanese Yen		USD	0.5%	-0.1%	-1.6%
Australian Dollar		USD	0.1%	0.3%	3.0%
South African Rand		USD	1.0%	1.7%	0.0%
Swiss Franc		USD	-0.2%	0.0%	-4.1%
Chinese Yuan		USD	0.2%	0.0%	-1.0%
Commodities & Alternatives					
Commodities	RICI TR	USD	0.9%	1.9%	2.2%
Agricultural Commodities	RICI Agriculture TR	USD	-0.3%	-0.2%	9.4%
Oil	ICE Crude Oil CR	USD	6.1%	6.2%	4.9%
Gold	Gold Index	USD	1.0%	-0.2%	5.7%
Hedge Funds	HFRX Global Hedge Fund	USD	0.3% *	0.4%	2.2% *

* Estimate

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

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