Weekly Review

Week ending 12th August 2011

Stock markets continued to pitch and roll violently last week. The S&P 500 Index fell by 6.7% on Monday, rallied by 4.7% on Tuesday, fell back 4.4% on Wednesday and rose 5.2% over the subsequent two days to Friday's close. Putting these moves together resulted in a loss of 1.7% for investors. Global equities fell by 1.1% in US Dollar terms, with Japan down 4.1% in local currency terms. Recent volatility in equity markets can be attributed in part to the high levels of political risk facing investors, with demand from the public purse undergoing significant changes as Western governments look to rebalance their books.

The Federal Reserve announced it would leave benchmark lending rates on hold for the next two years, although a lack of additional measures disappointed a section of investors. The potential for a further bout of quantitative easing is now at the forefront of investors' minds, although the Fed may instead extend the duration of its current portfolio. Inflation figures between now and the annual Fed meeting at Jackson Hole will be an important factor in any decision regarding additional stimulus.

US treasuries rose by 1.4% last week in spite of the downgrade by Standard and Poor's. Global government bonds rose 1.6% in US Dollar terms, whilst emerging market bonds fell by 1.3%. Credit has been fairly robust since this most recent period of risk aversion began, with investment grade benefiting from its higher beta to interest rate risk. High yield credit on the other hand has fallen back since the end of July, with the interest component having less bearing on total return for the asset class.

The European Central Bank's renewed bond purchase program saw yields on Italian and Spanish 10 year government bonds move in by 80 basis points and 89 basis points respectively on Monday. Borrowing rates remained at close to 5% for both issuers through to the end of the week. All three major ratings agencies (Standard & Poor's, Moody's and Fitch) confirmed France's AAA stable rating on Wednesday, as the country's sovereign debt and banking sector came under pressure. Société Générale was forced to deny that it was facing a 'run' by depositors, or that it had suffered hefty losses from recent trades, as its share price slumped in response to market rumours. French banks fell by 11% on Wednesday, with the broad CAC Index down by 5.5%.

France's second quarter GDP disappointed at 0.0% quarter-on-quarter versus 0.3% expected. French President Nicolas Sarkozy is said to be in favour of greater financial integration within the European Union, with new borrowing funded by the sale of 'ebonds' backed by all members. Further discussions between European heads of state will take place over the coming fortnight, beginning with Tuesday's meeting of President Sarkozy and German Chancellor Angela Merkel, who faces growing criticism from within her own party of the continued aid to Europe's peripheral governments.

Italy announced EUR 45.5 billion of fiscal cuts, alongside higher taxes, on Friday evening, aimed at bringing the country's budget into line by 2013. The plan was criticised by CGIL, one of Italy's largest trade unions, who raised the prospect of strike action later in the month. No plans were unveiled to improve the government's dire record on tax collection. The political and regulatory imperative for banks to hold sovereign debt of declining value, may, once again, lead us into a banking crisis. Passing the risk around in Europe has not diminished its size or scope.

France, Spain, Italy and Belgium announced a 15 day ban on the short-selling of certain financial stocks on Thursday evening. Whilst some of the recent selling may be attributed to rumours and other similar skulduggery, there remains huge uncertainty over the fair value of these businesses.

London was hit by consecutive nights of rioting between Saturday and Tuesday last week, with unrest spreading to other large UK cities by Wednesday. Despite these events dominating headlines they appeared to have little impact on equity market returns, as the FTSE All Share bucked the global trend with gains of 1.5% in Sterling terms.

Property securities rose in the US and Europe, whilst sharply down in Asia and Australia. Commodity currencies including the Australian Dollar and the South African Rand depreciated against the greenback as the outlook for global growth (and hence expected demand for commodities) deteriorated. Oil similarly fell by 4.0%. Gold rose by 4.7% to end the week at USD 1,738 per troy ounce, despite the Chicago Mercantile Exchange increasing the margin requirement on gold contracts by 22%.

Source: Momentum Global Investment Management Limited / Bloomberg. August 2011

Returns to 12 August 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 12 August 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	**USD**	-1.7	-8.7	-5.5
United Kingdom	FTSE All Share TR	**GBP**	1.5	-8.3	-7.6
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.1	-11.4	-13.0
Japan	Topix TR	**JPY**	-4.1	-8.7	-13.5
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	-3.8	-12.3	-9.1
Global	MSCI World NR	**USD**	-1.1	-9.5	-6.4
Global emerging markets	MSCI World Emerging Markets TR	**USD**	-4.8	-12.9	-12.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	1.4	2.5	6.9
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	2.2	2.5	12.9
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.1	0.7	6.5
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-2.9	-4.8	1.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.4	1.7	7.0
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.9	-0.3	5.3
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	2.1	2.6	2.8
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-1.2	-1.5	1.2
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-3.5	-6.2	-2.3
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.4	0.1	1.1
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.1	2.3	9.2
Global Government bonds	JP Morgan Global GBI	**USD**	1.6	1.4	7.8
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.1	1.0	7.3
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-1.1	-5.1	-3.5
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-1.3	-1.1	6.0

Source: Momentum Global Investment Management Limited / Bloomberg. August 2011

Returns to 12 August 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 12 August 2011	Currency returns: Month to date	Currency returns: YTD 2011
Property					
US Property securities	MSCI US REIT TR	**USD**	2.4	-10.3	-0.1
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	3.4	-7.3	4.6
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.7	-9.9	-6.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-2.5	-7.2	-10.8
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-4.9	-11.4	-13.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-0.3	-10.5	-4.4
Currencies					
Euro		**USD**	0.2	-1.1	5.0
UK Pound Sterling		**USD**	-0.7	-0.9	4.0
Japanese Yen		**USD**	2.2	0.6	5.7
Australian Dollar		**USD**	-1.1	-6.0	0.8
South African Rand		**USD**	-4.3	-6.8	-8.1
Swiss Franc		**USD**	-1.3	2.0	20.6
New Zealand Dollar		**USD**	-1.3	-5.3	5.0
Commodities					
Commodities	RICI TR	**USD**	-0.3	-5.4	-2.0
Agricultural Commodities	RICI Agriculture TR	**USD**	0.2	-0.6	-5.5
Oil	Brent Crude Index (ICE) CR	**USD**	-4.0	-9.7	14.0
Gold	Gold index	**USD**	4.7	6.6	23.0

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

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