

# Weekly Review

Week ending 12<sup>th</sup> October 2012

Equity markets gave back some of their recent gains last week, with most developed and emerging markets ending the week lower. Japanese stocks underperformed other regions, as the Topix index declined by 2.6% in local currency terms. Fixed income securities, however, largely enjoyed positive returns, with US and UK corporate grade bonds outperforming government and high yield debt.

Speaking at the International Monetary Fund's annual meetings last week in Tokyo, Christine Lagarde urged Eurozone countries not to focus myopically on austerity measures, but also to target growth. Ms. Lagarde's comments followed the release of the IMF's global growth forecasts earlier in the week, which saw global growth revised downwards to 3.3% and 3.6% in 2012 and 2013 respectively (down from 3.5% and 3.9% in July). The forecasts also predicted an "alarmingly high" risk of a serious global slowdown, including a one-in-six chance that global growth would fall below 2%. Despite the generally downbeat tone to its forecasts, the IMF does not foresee China suffering a 'hard landing' (a sudden and material decline in its annual growth rate as opposed to a managed slowdown). In line with her emphasis on targeting growth, Ms. Lagarde lent her support to Greece's request for an extra two years to achieve its fiscal targets. Greece welcomed another unlikely ally in the shape of German Chancellor Angela Merkel, who, on her first visit to Athens in five years, reaffirmed her commitment to keeping Greece in the Eurozone.

Earlier in the week, the Economic and Financial Affairs Council (ECOFIN) meeting disappointed investors keen for some decisive action over the issue of a Spanish bailout. Concerns over the country's growth and its lack of clear budgetary reforms saw the sovereign downgraded two notches, as Standard & Poor's moved its guidance in line with other ratings agencies to BBB-. The bonds were also left on negative outlook due to visible risks in the near term, including the country's regional elections on 21 October.

On a more positive note, the ECOFIN meeting saw Eurogroup president Jean Claude Juncker officially launch the European Stability Mechanism (ESM), an event he described as a "historical milestone in shaping the future of the European monetary union". Fitch awarded the fund a AAA (Stable Outlook) rating, whilst Moody's adjudged its risks to be higher at Aaa (Negative Outlook), based on the fact that all but one of the ESM's capital contributors have negative outlooks as well.

In the US trade figures showed the deficit widening by 4.1% to USD 44.2 billion in August, from USD 42.5 billion in July. A 1% fall in exports due to lacklustre global growth was the main contributor to the larger than expected increase in the deficit. Stronger data emerged from the labour market, however, where applications for jobless benefits fell by 30,000 to 339,000 in the week ending 6 October. The Bloomberg Consumer Confidence Index fell to -38.5 in the same week.

Elsewhere, Korea cut benchmark interest rates by 25 basis points to 2.75%, whilst trade data from China surprised on the upside, with export (9.9%) and import (2.4%) growth contributing to a rise in the trade surplus to USD 27.7 billion, versus USD 20.5 billion expected for September.

Finally turning to commodities, corn prices rose sharply on Thursday following the latest forecasts from the US Department of Agriculture (USDA), which suggested that corn production in 2012-2013 will fall to 10.8 billion bushels, 2.2 billion bushels less than last month's prediction. The main reason for the supply concerns was attributed to the severe droughts in the region, which is the world's largest exporter of the commodity. Brent crude oil added 1.8% last week, as the price of a barrel of oil for delivery in November rose by 2.6 cents to USD 114.62.

**Returns to 12 October 2012**

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 12 October 2012	Month to date	YTD 2012
<b>Developed Market Equities</b>					
United States	S&P 500 NR	USD	-2.2%	-0.8%	15.0%
United Kingdom	FTSE All Share TR	GBP	-1.3%	1.0%	9.2%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.9%	0.7%	13.5%
Japan	Topix TR	JPY	-2.6%	-2.6%	0.9%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-0.7%	0.2%	17.8%
Global	MSCI World NR	USD	-2.1%	-0.4%	12.6%
<b>Emerging Market Equities</b>					
Emerging Europe	MSCI EM Europe NR	USD	-1.6%	1.0%	18.0%
Emerging Asia	MSCI EM Asia NR	USD	-1.5%	-0.8%	13.2%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.9%	0.6%	4.8%
BRICs	MSCI BRIC NR	USD	-0.3%	1.1%	8.5%
South Africa	FTSE JSE All Share TR	USD	0.3%	-2.3%	9.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.2%	-0.5%	11.4%
<b>Bonds</b>					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4%	-0.1%	2.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.2%	0.6%	7.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.0%	1.0%	9.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	0.7%	12.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	-0.1%	2.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.7%	0.7%	11.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.6%	0.8%	8.3%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	0.7%	11.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.2%	1.1%	21.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.0%	1.9%
Australian Government	JP Morgan Australia GBI TR	AUD	0.1%	-0.1%	6.3%
Global Government Bonds	JP Morgan Global GBI	USD	0.2%	0.1%	3.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.2%	0.3%	4.7%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-1.0%	0.0%	10.0%
Emerging Market Bonds	JP Morgan EMBI +	USD	0.2%	1.3%	15.8%

Source: Lipper Hindsight, October 2012.

## Returns to 12 October 2012

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 12 October 2012	Month to date	YTD 2012
<b>Property</b>					
US Property Securities	MSCI US REIT NR	USD	-0.6%	-0.4%	13.6%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.2%	1.9%	22.7%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	0.0%	2.5%	19.2%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-0.1%	3.5%	28.7%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-0.7%	0.1%	33.3%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	-0.7%	0.1%	21.8%
<b>Currencies</b>					
Euro		USD	-0.7%	0.8%	-0.1%
UK Pound Sterling		USD	-0.7%	-0.4%	3.5%
Japanese Yen		USD	0.4%	-0.7%	-1.8%
Australian Dollar		USD	0.0%	-1.6%	-0.2%
South African Rand		USD	0.4%	-4.3%	-6.4%
Swiss Franc		USD	-0.4%	0.8%	0.3%
Chinese Yuan		USD	0.3%	0.3%	0.4%
<b>Commodities &amp; Alternatives</b>					
Commodities	RICI TR	USD	-0.1%	-0.9%	4.6%
Agricultural Commodities	RICI Agriculture TR	USD	-0.8%	-1.9%	5.9%
Oil	ICE Crude Oil CR	USD	4.8%	3.6%	7.3%
Gold	Gold Index	USD	-0.8%*	-0.4%*	15.5%*
Hedge Funds	HFRX Global Hedge Fund	USD	-0.1%*	0.0%*	2.7%*

\* Estimate

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