Weekly Review

Week ending 13th July 2012

The S&P 500 rallied by 1.6% on Friday to bring an end to a run of six consecutive down days for the index and pull US stocks into positive territory for the week. Selling activity by investors in Asia, and particularly Japan, saw the global aggregate decline by 0.3% over the period however, with shares in emerging markets falling by 2.0%. Meanwhile holders of government bonds helped themselves to gains, as yields on 10 year US treasuries headed back below 1.5%.

A portion of market participants appear to have been disappointed by the lack of progress on new spending by the US Federal Reserve, having bought equities in anticipation of a further round of quantitative easing (QE) aimed at arresting the recent decline in jobs growth. Minutes from the Federal Open Market Committee published last week reveal that the need for more QE is not yet a consensus view amongst committee members, and should only be expected in the event that the economic recovery loses momentum from here.

Turning once more to Europe, Greece's new tripartite coalition won a vote of confidence at the start of last week, after which Prime Minister Antonis Samaras asked Greece's creditors for a two year extension to the current structural adjustment timetable. In return, Mr. Samaras pledged to meet all other commitments whilst accelerating the government's asset privatisation plan. Whilst it would be easy to question Greek pledges made today, this request had been clearly signposted in the wake of last month's elections. Governments in the euro area cannot afford to break too many more promises without the risk of a further pullback in private capital from European bond markets. To this end, Spanish Prime Minister Mariano Rajoy announced new cuts to pensions, unemployment benefits and public wages, alongside a hike in sales taxes, as part of a EUR 65 billion package of deficit cuts.

Italy suffered a two notch downgrade by Moody's Investor Services last week, leaving its credit rating at Baa2, negative outlook. Italian government paper is now just above the minimum threshold for investment grade debt, a level below which certain investors are prohibited from owning the bonds in their portfolios. The move is likely to reduce the demand for Italian government debt. Yields on 10 year Italian government bonds rose to 5.34% last week, representing a spread to German bunds of 4.1%.

European finance ministers unveiled the blueprint for administering Spain's EUR 100 billion bank rescue plan at the start of the week. The first EUR 30 billion will be sent to Madrid by the end of July, to be used in the event that conditions in Spain's banking sector deteriorate unexpectedly in the near future. Before the final terms of the deal are confirmed, an in-depth stress test is to be carried out on 14 Spanish lenders, laying the way for Madrid to carve out distressed assets into a 'bad bank'. The aid will initially be channelled through FROB ([English] Fund for Orderly Bank Restructuring), the Spanish government's existing bank bailout fund, and consequently will be added to the country's national debt. Once a new Eurozone banking supervisor has been established, however, these loans will pass directly to the troubled banks, reducing the public debt burden. Steps are being taken to offer similar terms to Ireland, whose national accounts currently include EUR 64 billion in bank bailouts. According to the Financial Times, Spanish banks will be required to write off their preferred shares and subordinated bonds before being allowed to draw on Eurozone rescue funds. Spanish banks have some EUR 67 billion of subordinated and hybrid debt outstanding, according to the Bank of Spain, much of which is held by retail investors and owners of savings products.

Global property securities added 0.2% last week, with UK listed property rallying by 1.4% in sterling terms. Commodities gained 2.7% despite Brent crude prices heading back below USD 100 a barrel, following the Norwegian government's decision to ward off a strike by platform workers, thereby preventing the first shutdown of the country's oil industry in nearly 25 years.

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

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Week ending 13th July 2012

Returns to 13 July 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 13 July 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	USD	0.2%	-0.3%	8.8%
United Kingdom	FTSE All Share TR	GBP	0.0%	1.6%	5.0%
Continental Europe	MSCI Europe ex UK NR	EUR	0.8%	0.9%	5.1%
Japan	Topix TR	JPY	-3.3%	-3.1%	3.7%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-1.6%	0.4%	6.3%
Global	MSCI World NR	USD	-0.3%	-0.8%	5.1%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	0.5%	-0.1%	6.5%
Emerging Asia	MSCI EM Asia NR	USD	-3.1%	-1.7%	3.2%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.3%	0.3%	-0.2%
BRICs	MSCI BRIC NR	USD	-2.1%	-0.7%	-0.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-2.0%	-1.0%	2.9%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.3%	0.9%	2.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.6%	1.5%	5.8%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.7%	1.6%	6.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	0.8%	8.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.8%	1.4%	3.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.1%	2.3%	7.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.7%	1.4%	5.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	1.6%	7.4%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.0%	1.3%	13.1%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.5%	1.9%
Australian Government	JP Morgan Australia GBI TR	AUD	1.1%	1.3%	6.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.5%	0.3%	0.6%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.4%	0.1%	1.4%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-0.2%	-0.5%	4.5%
Emerging Market Bonds	JP Morgan EMBI +	USD	1.4%	2.7%	9.8%

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

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Returns to 13 July 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 13 July 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	0.7%	1.9%	16.4%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.4%	3.8%	18.5%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	0.7%	3.0%	14.0%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	1.0%	1.2%	18.0%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-0.7%	1.4%	19.9%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	0.2%	1.5%	17.1%
Currencies					
Euro		USD	-0.5%	-3.5%	-5.7%
UK Pound Sterling		USD	0.3%	-0.9%	0.0%
Japanese Yen		USD	0.4%	0.7%	-2.9%
Australian Dollar		USD	0.0%	-0.3%	-0.3%
South African Rand		USD	0.0%	-1.0%	-2.3%
Swiss Franc		USD	-0.5%	-3.5%	-4.7%
Chinese Yuan		USD	-0.2%	-0.4%	-1.3%
Commodities					
Commodities	RICI TR	USD	2.7%	3.9%	-1.5%
Agricultural Commodities	RICI Agriculture TR	USD	2.9%	7.5%	7.3%
Oil	ICE Crude Oil CR	USD	-1.5%	7.8%	-7.3%
Gold	Gold Index	USD	0.5%	-0.2%	4.2%
Hedge Funds	HFRX Global Hedge Fund	USD	0.1%	0.3%	1.6%

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

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