FP FINANCIAL PARTNERS

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Weekly Review

Week ending 13th April 2012

The smooth progress of markets at the start of 2012 has been arrested in the two weeks since the last weekly update. The VIX index, a popular gauge of investor uncertainty, has spiked upwards from the record lows seen in the first quarter. Selling pressure intensified on Tuesday last week, as investors rotated away from perceived "riskier" investments such as equities towards core developed market government bonds. Whilst global equities declined by 1.6% on the day, US 10 year yields dipped back below 2%, with German 10 year Bund yields falling to an all time low of 1.64%.

This latest spike in risk aversion has been prompted principally by concerns over Spain's deteriorating fiscal dynamics and renewed concerns over the outlook for global growth. In the euro area, Spanish 10 year yields rose to their highest level since 30 November 2011 last week, with the premia on Credit Default Swaps (derivatives contracts designed to protect against the risk of a default by the Spanish government) following a similar path. Research from Deutsche Bank highlights that Spanish banks may have already exhausted their loans from the European Central Bank's (ECB) second Long-Term Refinancing Operation, thereby removing a meaningful source of demand for Spanish government bonds. Benoit Coeure, an executive director of the ECB, said the central bank could restart its bond purchase program in order to alleviate the pressure in Spanish government bond markets.

Data from the US Bureau of Labor Statistics released at the start of April, showed unemployment falling to 8.2% in March, its lowest level since January 2009. The employment figure, however, fell significantly short of economists' forecasts. Nonfarm payroll employment rose by 120,000 in March, versus expectations for a rise of 205,000. The S&P 500 index responded with falls of 1.1% and 1.7% over the subsequent two trading sessions. The weak employment report, whilst fuelling fears that the recent improvement in sentiment may have been premature, is likely to add to speculation regarding further intervention from policymakers.

Chinese GDP growth disappointed forecasters, at 8.1% year-on-year versus 8.4% expected, the slowest pace of expansion in nearly three years. Other data released at the same time were more positive, however, as industrial production expanded by 11.9% year-on-year versus 11.6% expected, whilst retail sales grew by 15.2% year-on-year versus 15.1% expected.

Global equities declined by 1.6% last week in US dollar terms, to bring month to date returns to -3.2%. The ratio of current stock prices to trailing 12 month earnings on major indices may indicate areas of cheapness relative to recent history. The S&P 500 index is currently trading circa 18% below its 10 year average, with this discount rising significantly in the UK and Europe. Readers should be mindful of the fact, however, that price multiples appear to have adjusted upwards to a structurally higher level in the last 25 years, and could therefore revert back to levels consistent with the years before 1990. For example, since 1986 the S&P 500 has averaged a price to trailing earnings multiple of approximately 19 times, compared to 14 times over the preceding 33 years.

The JP Morgan Global Government Bond index rallied by 1.1% last week in US dollar terms, as government bonds in the US, the UK and emerging markets all posted gains on the back of increased investor anxiety. Global property securities outperformed the broader equity market, whilst nonetheless down by 0.3%. Year to date the global aggregate is 3.3% ahead of global equities.

In commodity markets, natural gas for delivery in May fell to a record low, below two dollars per million British thermal units (MMBtu) on Wednesday last week. US crude oil stocks are currently at their highest level for April since 1990, with production scaling a 12-year high in the last week of March. Oil sold off by 2.6% last week, based on the price of contracts traded on the Intercontinental Exchange (ICE), versus a decline of 1.3% for the broader commodities index.

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

Returns to 13 April 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 13 April 2012	Currency returns: Month to date	Currency returns: YTD 2012
Equities					
United States	S&P 500 NR	USD	-2.0	-2.7	9.4
United Kingdom	FTSE All Share TR	GBP	-1.1	-1.9	4.1
Continental Europe	MSCI Europe ex UK NR	EUR	-2.7	-5.1	4.0
Japan	Topix TR	JPY	-1.2	-4.6	13.2
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	0.5	-0.2	11.1
Global	MSCI World NR	USD	-1.6	-3.2	7.9
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	-0.4	-2.4	16.5
Emerging Asia	MSCI EM Asia NR	USD	-0.4	0.0	13.3
Emerging Latin America	MSCI EM Latin America NR	USD	-2.2	-3.6	10.5
BRICs	MSCI BRIC NR	USD	-0.5	-1.0	12.6
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.9	-1.4	12.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9	1.1	-0.2
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.7	1.5	2.3
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2	0.9	3.0
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.3	-0.2	5.1
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.0	1.3	-0.8
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.4	0.3	3.2
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.0	-0.8	2.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.1	-0.2	5.5
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.6	-1.4	11.1
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3	0.2	0.5
Australian Government	JP Morgan Australia GBI TR	AUD	1.0	1.2	0.7
Global Government Bonds	JP Morgan Global GBI	USD	1.1	0.4	-0.5
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.6	0.1	1.0
Global Convertible Bonds	UBS Global Convertible Bond	USD	-0.7	-1.6	6.9
Emerging Market Bonds	JP Morgan EMBI +	USD	0.6	0.5	4.6

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

Returns to 13 April 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 13 April 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	-1.1	-2.4	7.8
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-0.5	-1.2	9.2
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-1.3	-3.5	5.7
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	1.3	2.2	9.7
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.2	0.4	17.0
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	-0.3	-1.5	11.2
Currencies					
Euro		USD	0.2	-1.8	0.8
UK Pound Sterling		USD	0.3	-0.6	2.2
Japanese Yen		USD	1.7	1.6	-5.0
Australian Dollar		USD	0.6	0.1	1.1
South African Rand		USD	-1.5	-3.3	1.7
Swiss Franc		USD	0.1	-1.7	1.7
Chinese Yuan		USD	0.2	-0.1	-0.1
Commodities					
Commodities	RICI TR	USD	-1.3	-1.7	3.4
Agricultural Commodities	RICI Agriculture TR	USD	-1.6	-2.5	-0.6
Oil	ICE Crude Oil CR	USD	-2.6	-2.5	12.0
Gold	Gold Index	USD	2.2	0.2	8.8
Hedge Funds	HFRX Global Hedge Fund	USD	-0.3	-0.4	2.7

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

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