Weekly Review

Week ending 14th September 2012

Global equities added 2.7% last week, to record consecutive positive weeks at the start of September. Markets have added 17.7% since hitting their most recent bottom in June, spurred on by additional support from policymakers on both sides of the Atlantic. Emerging market equities added 4.7% over the week, led by Europe. In contrast, core global government bonds continued to lose ground in local currency terms, in spite of the technical tailwind provided by the announcement of a new round of large scale asset purchases (quantitative easing) from the US Federal Reserve.

Markets have broadly welcomed the decisions taken by policymakers in the past few weeks, beginning with the substantive progress made by the European Central Bank (ECB) towards supporting peripheral government bond yields at the start of September. Recapping last week's main events, Germany's Constitutional Court approved the European Stability Mechanism (ESM) on Wednesday, subject to strict provisions, at the same time as voters returned a centrist government in the Netherlands. Germany has capped its potential liability from the ESM at EUR 190 billion, with any subsequent extension requiring legislative approval. Peripheral government bond yields fell sharply in response to the news, whilst European equity markets rallied to a 14 month high.

New banking regulations continue to take shape in Europe, after the European Commission released its draft proposals for a region-wide banking union. As part of the overhaul to the current system of national regulators: (i) banks will be required to meet a single set of capital requirements, (ii) depositor protection will be equalised throughout all 17 member states, and (iii) the ECB will act as lender of last resort. Elsewhere in Europe, Spanish Prime Minister Mario Rajoy stated again that his government is not in need of a full bailout. In neighbouring Portugal, reforms were judged to be "broadly on track", in spite of "strong headwinds", by the Troika of the European Union, the International Monetary Fund and the ECB.

Arguably, the most significant policy announcement last week came from the US Federal Reserve (Fed) on Thursday. Members of the Federal Open Market Committee – the central bank's monetary policy committee – voted 11 to 1 in favour of additional quantitative easing, dubbed QE3. The Fed is set to begin purchasing mortgage-backed securities at an initial rate of USD 40 billion per month, continuing until such time as the labour market has improved "substantially". Officials also voted to extend 'Operation Twist', the Fed's portfolio rebalancing programme aimed at reducing longer term interest rates, through to the end of 2012. Combining the two schemes, the Fed stands ready to purchase USD 85 billion worth of assets per month through the remainder of this year.

The S&P 500 closed at 1459.99 points on Thursday following the Fed's announcement, its highest level since the last day of 2007. Meanwhile commodities continued to make ground, rising by 3.2% last week, as agricultural commodities, oil and gold all enjoyed gains.

Source: Lipper Hindsight / Bloomberg. Returns in US dollars unless otherwise stated. September 2012.

Returns to 14 September 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 14 September 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	USD	2.0%	4.3%	17.8%
United Kingdom	FTSE All Share TR	GBP	2.2%	4.0%	11.3%
Continental Europe	MSCI Europe ex UK NR	EUR	1.6%	4.7%	16.6%
Japan	Topix TR	JPY	3.0%	3.5%	5.2%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	3.8%	4.8%	18.7%
Global	MSCI World NR	USD	2.7%	5.4%	16.0%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	6.3%	11.8%	24.7%
Emerging Asia	MSCI EM Asia NR	USD	5.0%	6.7%	13.4%
Emerging Latin America	MSCI EM Latin America NR	USD	4.8%	7.6%	7.9%
BRICs	MSCI BRIC NR	USD	5.4%	8.3%	9.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	4.7%	7.2%	13.2%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.9%	-1.5%	1.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.1%	1.1%	7.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.5%	-0.9%	7.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.2%	2.0%	12.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-2.0%	-2.6%	1.1%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.9%	-0.9%	9.0%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5%	0.6%	6.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	0.1%	9.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.1%	2.6%	20.1%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.1%	1.7%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.4%	-0.9%	4.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.1%	0.7%	2.8%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.5%	1.1%	4.3%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.8%	3.3%	11.6%
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.1%	1.0%	13.9%

Source: Lipper Hindsight, September 2012.

Returns to 14 September 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 14 September 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	1.5%	3.0%	19.8%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	0.9%	2.4%	24.4%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	0.3%	1.8%	18.7%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-1.1%	2.1%	25.6%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	3.5%	6.2%	32.5%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	2.2%	4.4%	24.9%
Currencies					
Euro		**USD**	2.7%	4.3%	1.3%
UK Pound Sterling		**USD**	1.4%	2.3%	4.5%
Japanese Yen		**USD**	-0.3%	0.0%	-1.8%
Australian Dollar		**USD**	1.8%	2.3%	3.1%
South African Rand		**USD**	-0.6%	2.6%	-1.7%
Swiss Franc		**USD**	2.0%	3.0%	1.1%
Chinese Yuan		**USD**	0.5%	0.5%	-0.3%
Commodities & Alternatives					
Commodities	RICI TR	**USD**	3.2%	4.2%	9.5%
Agricultural Commodities	RICI Agriculture TR	**USD**	1.8%	1.7%	12.9%
Oil	ICE Crude Oil CR	**USD**	2.4%	3.3%	8.6%
Gold	Gold Index	**USD**	2.7%	7.7%	16.0%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.2%*	0.6%*	2.9%*

* *Estimate*

Source: Lipper Hindsight, September 2012.

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