Weekly Review

Week ending 14th October 2011

Investors sought assets aligned to global growth last week, with equities gaining 5.4% in US dollar terms, led by the US and Asia excluding Japan. Investment grade corporate debt rallied alongside lower rated credits, with high yield bonds in Europe returning 3.5% in euro terms. Improved sentiment also prompted gains for commodities, up 4.6% in US dollar terms, whilst the price of Brent Crude rose to USD 114.5 per barrel. Government bonds fell by 10 basis points, with losses for Dollar denominated investors ameliorated by the rising Dollar value of the euro and Sterling in particular.

Credit markets saw EUR 4.8 million of new deals from corporate and financial issuers. The successful sale of unsecured debt by several banks was significant, indicating a reopening of this section of the market, post its effective closure during the third quarter.

In America, Senators passed the US currency bill on Tuesday. The bill sets out punitive tariffs to be levied on Chinese imports if authorities in the People's Republic continue to artificially suppress the value of the Yuan. Republican House Speaker John Boehner has stated his opposition to bringing the legislation to a vote, with commentators warning of the risks inherent in unilaterally raising barriers to trade. China has allowed the Yuan to appreciate gradually against the US Dollar over the past 12 months, although the currency is still considered undervalued by the majority of economists.

A sudden rise in the price of the Yuan would hurt the competitiveness of China's export industries, exacerbating current stresses within the Chinese economy. Trade figures disappointed in September, with growth rates of both exports and imports falling below consensus expectations. Chinese authorities unveiled new measures to assist smaller businesses on Wednesday, including increasing companies' access to credit and lowering their total tax burden. China's sovereign wealth fund is reported to be buying domestic bank shares, in a bid to reassure investors of the sector's strength. Consumer prices fell by 0.1% in September, to a year-on-year growth rate of 6.1%, in line with consensus forecasts. With inflation having limited the scope for further fiscal stimulus in China, it was encouraging to see M2 money growth slow in September, whilst new lending fell to its lowest level in almost two years.

Ratings agencies Standard & Poor's and Fitch both downgraded Spain's largest banks on Tuesday evening, based on the economy's lower growth prospects, the state of the Spanish property market and ongoing capital market stresses. S&P downgraded Spain's sovereign rating to AA-, negative outlook, on Thursday evening, in line with the rating assigned by Fitch. The yield on 10 year Spanish government bonds duly rose to 5.3% during the course of Friday morning, before falling back to close around 5.2%. Spain's unhappy companion through the recent market turmoil, Italy, successfully issued one year government bills with an average yield of 3.57% last week, compared to 4.15% at the start of September.

Malta approved changes to the European Financial Stability Fund (EFSF) on Monday evening. Slovakian Prime Minister Iveta Radicova shifted the emphasis of the country's vote on changes to the EFSF, to ministerial confidence in the incumbent government.

The intransigence of the minority partner in the administration signalled the end of Mrs Radicova's premiership. Unlike other European heads to have rolled in 2011, Mrs. Radicova was not seen as being culpable for the profligacy that created the current debt crisis. The Freedom and Solidarity Party subsequently announced its willingness to vote in favour of the bill, which was passed on Thursday to complete the ballot of European Union members. The bill increases the lending capacity of the EFSF to EUR 440 billion (up from circa 225 billion previously), whilst the fund now has the power to buy government debt in both primary and secondary markets and to assist member governments with the recapitalisation of their banking sectors.

Supranational lenders involved in Greece's bailout confirmed that Athens is likely to receive the next tranche of financial aid in early November, subject to the findings of the latest review being agreed. European officials may increase the size of the haircut on Greek government bonds from 21%, as agreed on 21 July, to between 30 and 50%.

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

Returns to 14 October 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 14 Oct 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	USD	6.0	8.3	-1.5
United Kingdom	FTSE All Share TR	GBP	3.2	6.4	-5.3
Continental Europe	MSCI Europe ex UK NR	EUR	3.6	6.0	-13.2
Japan	Topix TR	JPY	1.0	-1.6	-14.8
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	5.5	7.0	-12.5
Global	MSCI World NR	USD	5.4	7.5	-5.6
Global emerging markets	MSCI World Emerging Markets TR	USD	5.9	6.3	-16.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.6	-1.2	7.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.9	-0.2	10.7
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3	-0.8	53
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	2.5	1.7	0.3
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.1	-0.3	10.4
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	-0.2	-0.3	4.3
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.5	-1.8	2.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.5	-0.1	0.0
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	3.5	2.0	-4.7
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.2	0.0	1.8
Australian Government	JP Morgan Australia GBI TR	AUD	-0.9	-0.8	9.6
Global Government bonds	JP Morgan Global GBI	USD	-0.1	0.0	7.1
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.4	0.4	6.1
Global Convertible bonds	UBS Global Convertible Bond	USD	3.2	3.3	-5.8
Emerging Market Bonds	JP Morgan EMBI +	USD	2.0	2.7	6.6

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Returns to 14 October 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 14 Oct 2011	Currency returns: Month to date	Currency returns: YTD 2011
Property					
US Property securities	MSCI US REIT TR	USD	6.7	4.5	-2.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	3.7	8.8	0.5
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	2.8	6.0	-5.8
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	-0.1	1.9	-3.6
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	EUR	5.3	6.8	-15.4
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	5.9	6.0	-7.0
Currencies					
Euro		USD	2.8	3.3	3.4
UK Pound Sterling		USD	1.2	1.4	0.9
Japanese Yen		USD	-0.8	-0.4	4.8
Australian Dollar		USD	4.8	6.2	0.7
South African Rand		USD	0.1	2.3	-15.9
Swiss Franc		USD	2.4	1.6	4.3
New Zealand Dollar		USD	3.4	5.0	2.8
Commodities					
Commodities	RICI TR	USD	4.6	6.8	-5.1
Agricultural Commodities	RICI Agriculture TR	USD	4.6	4.6	-10.4
Oil	Brent Crude Index (ICE) CR	USD	6.7	5.6	18.4
Gold	Gold index	USD	1.6	3.6	18.9

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