Weekly Review

Week ending 15th July 2011

Europe's sovereign debt crisis intensified last week, as investor unease spread beyond the peripheries to Italy. The price of Italian 10 year bonds fell by 3% on Tuesday, with yields rising to an intraday high of over 6%. With Italian and Spanish 10 year bonds approaching the 6-7% levels that prompted Greece, Ireland and Portugal to seek assistance, market participants noted that the size of the Italian government's outstanding debt is far in excess of the current resources of the EU and IMF funding facilities. Whilst Italy's auction of bonds on Thursday was well subscribed, the government found itself paying 1% more to borrow money for the coming five years than it had done in June. The increase in the cost of borrowing reflects lenders' concerns over the size of Italy's debt pile, which was augmented by this latest rise in the country's cost of financing. Were such a cycle of higher yields leading to greater debt levels to become embedded, Italy's cost of borrowing could quickly rise to unsustainable levels.

Italy's finance minister, Giulio Tremonti, outlined a EUR 48bn programme of spending cuts to help the government rebalance its finances. The programme passed swiftly through parliament with broad cross-party support. Investors remain concerned, however, about the extent of the public backlash to come, and in particular the response from Italy's powerful trade unions. The lack of unity between Mr. Tremonti and Prime Minister Silvio Berlusconi has also worried the credit markets, with reports suggesting that the latter has already agreed concessions from the cuts in order to reduce the pain for voters. The ratings agencies continued to update their own assessments of the risks facing sovereigns, with Moody's downgrading Ireland by one-notch to Ba1 (outlook negative) on Tuesday evening, whilst Fitch downgraded Greece to CCC from B+ the following day. European leaders will meet on Thursday and the market will be hoping for a decisive plan of action.

Equity markets were down across the board last week, with Asia and Continental European companies suffering the worst of the declines. Global emerging markets fell by 2.4% to leave them essentially flat year to date.

Minutes from the Federal Open Market Committee meeting revealed support from some participants for further accommodative monetary policy in the US, in the event that inflation were to moderate alongside continued muted growth. The country's triple-A rating, maintained since 1917, was placed on review for possible downgrade by Moody's on Wednesday, as discussions over extending its statutory debt ceiling ground on. Standard & Poor's followed Moody's lead the following day, assigning odds of 50% to a US downgrade in the coming three months. The "no progress" feedback from successive rounds of discussions has prompted officials to consider a Plan B: President Obama may be given the green light to unilaterally raise the debt ceiling by USD 2.5tr with support of one third of the members of each chamber. US government bonds advanced by 0.5% last week in spite of the news, implying that the US is still viewed as the best alternative by investors.

The European Banking Authority's stress-tests revealed that eight of the 90 banks assessed currently fall below the regulator's minimum capital requirements. Analysts have suggested that the aspects of the report lacked rigour, in particular with regards to the treatment of adverse scenarios for sovereigns. A further 16 banks were adjudged to require new injections of equity, which will be sought in the coming nine months.

Shares in property companies suffered losses last week in all major regions outside of the UK. Property in London continues to benefit from low official rates, with two-tier growth rates increasingly apparent between the capital and the rest of the UK. Commodities, including agricultural commodities and oil, enjoyed gains last week. Gold rose by 3% to USD 1,590 per Troy Ounce, prompting the reopening of abandoned gold mines as the margin for profitable extraction continued to be pushed back.

Source: Momentum Global Investment Management Limited / Bloomberg July 2011

Returns to 15 July 2011

Asset Class/Region	Index	Currency	Currency returns Week ending 15 July 2011	Month to date	YTD 2011
Equities					
United States	S&P 500 NR	**USD**	-2.1	-0.3	5.4
United Kingdom	FTSE All Share TR	**GBP**	-2.5	-1.6	1.3
Continental Europe	MSCI Europe ex UK NR	**EUR**	-3.0	-3.5	-1.1
Japan	Topix TR	**JPY**	-1.7	1.2	-3.2
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	-3.2	-1.0	2.0
Global	MSCI World NR	**USD**	-2.2	-1.3	3.9
Global emerging markets	MSCI World Emerging Markets TR	**USD**	-2.4	-0.8	0.1
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.5	1.3	3.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.8	1.8	7.7
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.3	1.6	4.8
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.1	0.7	5.8
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.7	2.0	3.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.3	1.4	4.4
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.6	-0.7	-0.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.1	0.6	2.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.9	-0.8	4.0
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.5	0.2	0.9
Australian Government	JP Morgan Australia GBI TR	**AUD**	1.7	1.7	6.2
Global Government bonds	JP Morgan Global GBI	**USD**	0.7	0.5	4.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.3	0.1	4.5
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-1.6	-1.5	3.2
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.1	0.2	5.2

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

Returns to 15 July 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 15 July 2011	Currency returns: Month to date	Currency returns: YTD 2011
Property					
US Property securities	MSCI US REIT TR	**USD**	-2.2	2.1	21.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	0.1	-0.9	15.3
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-3.2	-2.9	4.3
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-3.9	-3.4	-0.6
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-3.1	-0.3	-3.7
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-2.5	0.1	4.1
Currencies					
Euro		**USD**	-0.1	-2.5	5.3
Sterling		**USD**	0.4	0.4	3.0
Yen		**USD**	2.0	2.2	2.6
Australian Dollar		**USD**	-0.8	-0.6	3.8
Rand		**USD**	-2.8	-1.8	-4.2
Commodities					
Commodities	RICI TR	**USD**	1.1	3.6	4.4
Agricultural Commodities	RICI Agriculture TR	**USD**	1.3	3.9	-3.2
Oil	Brent Crude Index (ICE) CR	**USD**	1.7	6.8	26.6
Gold	Gold index	**USD**	3.0	5.4	12.5

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

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