FP FINANCIAL PARTNERS

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Weekly Review

Week ending 16th March 2012

The week ending 16 March 2012 brought with it yet further thawing of market sentiment and, correspondingly, positive returns from asset classes such as equities and the lower quality components of the global fixed income universe. Global equities gained 2.3% last week, to bring their year to date returns to 12.2% in US dollar terms. Global emerging markets (GEM) equities underperformed their developed counterparts over the week by 1.9%, yet their year to date return is still superior, with gains of 16.4% in US dollar terms for the GEM index. The strongest performing developed market thus far in 2012 is the Japanese index, with a return of 19.0% in yen terms.

With equity market behaviour symptomatic of an enhanced risk appetite amongst investors, it is unsurprising to note that global government bonds generally slipped in value, with the JP Morgan Global Government Bond Index returning -1.1% over the course of the week. Over the past five trading sessions, the US 10 year Treasury yield increased by 26 basis points to close at 2.29% on Friday, its highest yield since late October 2011. This sell off also generally impacted the higher quality end of the credit spectrum, as these issues use comparable maturity government debt as a reference for their yield. While investment grade paper generally provided a better store of value compared to government debt, it nonetheless experienced negative returns. Global convertible debt gained 0.7% and US high yield debt added 0.2% in US dollar terms.

The debt markets remain an area of activity as both corporations and governments look to issue debt finance now to take advantage of relatively low nominal yields. Indeed, according to the Financial Times, global non-financial companies have issued a record number of bonds year to date. Corporate bond issues so far in 2012 have totalled USD 386 billion. Governments that are still paying low yields are also making moves to take advantage of this. It was also announced last week that the UK Treasury is contemplating issuing bonds with a tenor of 100 years, or even in perpetuity, in order to engender a low interest rate component in the debt capital structure for many years to come. The Debt Management Office (DMO) is set to launch a consultation into the feasibility of such an issue alongside the spring budget. The UK only began issuing the 50 year bond as recently as 2005. The UK has not issued a perpetual bond since the early twentieth century.

In the US the results of the recent banking stress tests were published last week. In the test, 15 of the 19 large banks tested were deemed adequately positioned. Citigroup, MetLife, SunTrust and Ally Financial failed the stress test as their core capital dipped below the requisite 5% threshold under the stress scenario. The test assumptions are for peak unemployment to hit 13% combined with a 50% drop in the equity markets and a 21% fall in house prices. JP Morgan, one of the successful banks tested, announced an increased dividend and authorised a USD 14 billion share repurchase plan. Other data released by the US last week was relatively positive, with US retail sales (ex autos) growing by 0.9% compared to 0.7% expected for February. Despite this enhanced activity at the tills, looking forward, US consumer sentiment is likely to come under increasing pressure due to the 17% jump in petrol prices experienced year to date. Initial jobless claims printed slightly behind expectations at 351,000 versus an anticipated level of 357,000. Furthermore, Purchaser Prices grew by 0.4% compared to expectations of 0.5% month on month in February. Core Consumer Price Index (CPI) was in line at 0.2%. Finally, two of March's manufacturing surveys undertaken by the Philadelphia and New York Fed exceeded expectations.

In currency markets, the euro and sterling have gained versus the US dollar year to date and this remained the case in the past week. Meanwhile, the Japanese yen has slipped in value in recent months versus the US dollar and, again, last week saw a continuation of that trend. Commodities were generally weaker last week, with oil and gold returning -1.7% and -1.8% respectively, although both are in positive territory year to date. Global property securities performed in line with the broader equity markets last week with a return of 2.3% in US dollar terms. Year to date there is also a reasonable degree of similarity in returns from both the listed property sector and the broader market.

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

Returns to 16 March 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 16 March 2012	Month to date	YTD 2012
Equities					
United States	S&P 500 NR	**USD**	2.5	2.9	12.0
United Kingdom	FTSE All Share TR	**GBP**	1.5	2.1	9.3
Continental Europe	MSCI Europe ex UK NR	**EUR**	3.0	3.5	13.1
Japan	Topix TR	**JPY**	2.1	3.7	19.0
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR USD	**USD**	0.8	-1.5	13.6
Global	MSCI World NR USD	**USD**	2.3	1.8	12.2
Global emerging markets	MSCI EM (Emerging Markets) NR USD	**USD**	0.4	-1.4	16.4
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-1.2	-1.5	-1.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR USD	**USD**	-0.7	-0.9	1.0
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.8	-1.4	1.6
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.2	-0.1	5.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR (daily)	**GBP**	-2.4	-2.4	-3.6
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-1.4	-1.2	1.6
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.8	-0.2	3.1
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.4	0.2	5.1
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	1.1	1.7	13.1
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.4	-0.4	-0.2
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.8	-0.9	-1.9
Global Government Bonds	JP Morgan Global GBI	**USD**	-1.1	-2.3	-2.1
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.8	-1.7	-0.2
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	0.7	0.1	8.6
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.4	0.4	4.7

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

Returns to 16 March 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 16 March 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT TR	USD	2.9	3.5	8.8
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	3.3	7.3	14.6
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	4.7	7.2	11.9
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	0.4	-1.1	6.8
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR EUR	EUR	0.9	-1.5	20.4
Global Property Securities	FTSE EPRA/NAREIT Developed TR USD	USD	2.3	1.9	13.7
Currencies					
Euro		USD	0.4	-1.5	1.5
UK Pound Sterling		USD	1.0	-0.8	2.0
Japanese Yen		USD	-1.2	-2.9	-7.7
Australian Dollar		USD	-0.3	-2.0	3.2
South African Rand		USD	-1.1	-1.9	6.3
Swiss Franc		USD	0.3	-1.7	2.1
New Zealand Dollar		USD	0.0	-2.3	5.6
Commodities					
Commodities	RICI TR	USD	-0.3	-1.0	6.9
Agricultural Commodities	RICI Agriculture TR	USD	1.7	-0.5	2.3
Oil	ICE Crude Oil CR	USD	-1.7	0.3	14.8
Gold	Gold Index	USD	-1.8	-6.3	8.3

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

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