Weekly Review

Week ending 16th September 2011

Three years to the day that Lehman Brothers collapsed, Swiss banking giant UBS issued a short statement to the market declaring that it had become aware of a serious case of fraudulent trading at its offices in London. Whilst estimated losses are small relative to the bank's equity base, Wednesday's admission of failures in its internal controls is likely to increase the pressure on UBS, at a time of heightened scrutiny of the wider banking industry. Moody's decision to cut its rating of French bank Société Générale last week was followed by the announcement that the European Central Bank (ECB) would be working in concert with authorities in the US, UK, Japan and Switzerland to provide dollar liquidity facilities for the banks. European banks have come under pressure from investors seeking to move capital out of the Eurozone, as the region's debt saga rumbles on.

Whilst last week's unhappy anniversary inevitably saw comparisons drawn between events in 2008 and the present, policymakers' heightened awareness of the importance of a well-functioning banking sector should lead to a quicker response this time around, as evidenced by the introduction of the dollar swap lines. Confidence is required for growth as it gives the impetus for the risk taking that underlies economic life. Whilst the University of Michigan consumer confidence survey is now close to the lows that followed Lehman's collapse, retail activity is not. US core retail sales rose by 0.1% in August (a rate that nonetheless disappointed forecasters), whilst July's industrial production beat expectations at 0.2%.

Equities gained 3.7% last week, led by the US. The rise of 5.4% by the S&P 500 was the index's largest weekly gain since July 2010. Year to date, government bonds have outperformed equities, despite beginning the year richly priced relative to their history; a testament to the lack of appetite for perceived 'riskier' investment in the private sector. Emerging market equities have lagged their developed peers in 2011, despite the relative strength of both their public and private sector balance sheets. The growth in trade between emerging economies has so far failed to allay investor fears of the negative implications of a slowdown in developed markets for growth in these regions. Ultimately this trade needs to be internally generated and self-propagating, rather than solely a function of developed market demand.

In spite of the ECB's bond purchase program, the spread of Italian 10-year yields over German bunds is near to recent highs. Whilst yields are some way off their absolute highs, the fall in Bund yields has pushed spreads up. Spanish yields have followed a similar path in recent weeks, whilst outperforming Italian government debt. Italy struggled to sell EUR 3.9 billion of 5 year bonds on Tuesday, agreeing an average yield of 5.6% with lenders, the highest borrowing rate paid by the sovereign issuer since the inception of the single currency in 1999. Reports suggest that Italy may have appealed to China for support of its issuance, with the BRIC economies announcing their willingness to support European sovereign borrowers in future. No new measures to address investor fears emerged from the meeting of EU finance ministers over the weekend. Greece faces EUR 2 billion of maturing debt on Friday this week, with a further EUR 1.1 billion in coupon payments arising in mid-October. Approval of the country's sixth tranche of aid is conditional on its receiving a positive review from its financial backers, the ECB, European Union and International Monetary Fund, a process that is expected to be concluded in early October.

Headline inflation in the US exceeded expectations in August, rising by 0.4% month-on-month versus forecasts for a 0.2% rise. The rate of price growth was also higher in the UK, prompted largely by rises in utility bills. Risks of inflation reduce the prospects for further monetary easing, despite weak employment data on both sides of the Atlantic.

Global property securities gained 1.0% last week, led by the US. The US is now the strongest area of the indirect property market year to date in 2011, having returned 4.2%. Commodities fell by 1.2% over the week, with agricultural commodities down by 3.8%. Gold pulled back by 3.1%, with oil also marginally down at USD 115.1 per barrel for Brent crude.

Source: Momentum Global Investment Management Limited / Bloomberg. September 2011

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Returns to 16 September 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 16 Sep 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	USD	5.4	-0.2	-2.3
United Kingdom	FTSE All Share TR	GBP	2.9	-0.4	-6.7
Continental Europe	MSCI Europe ex UK NR	EUR	2.9	-4.9	-17.4
Japan	Topix TR	JPY	1.7	-0.3	-13.5
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	-2.5	-5.5	-10.1
Global	MSCI World NR	USD	3.7	-2.8	-6.6
Global emerging markets	MSCI World Emerging Markets TR	USD	-1.5	-5.3	-13.4
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.6	0.7	8.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.0	0.7	11.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.1	0.2	6.1
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.2	-0.2	6.1
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.2	2.8	9.9
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	-0.7	0.5	4.9
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.3	0.6	3.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.8	-0.4	1.0
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	-1.2	-2.0	-4.4
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1	0.5	1.8
Australian Government	JP Morgan Australia GBI TR	AUD	0.1	0.6	10.1
Global Government bonds	JP Morgan Global GBI	USD	0.2	-0.8	7.8
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.0	-1.1	6.7
Global Convertible bonds	UBS Global Convertible Bond	USD	1.5	-1.9	-4.4
Emerging Market Bonds	JP Morgan EMBI +	USD	-1.0	-1.2	6.9

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Returns to 16 September 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 16 Sep 2011	Month to date	YTD 2011
Property					
US Property securities	MSCI US REIT TR	USD	3.9	-0.9	4.2
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-0.1	-2.9	-2.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-1.6	-6.0	-8.1
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	1.4	-2.4	-3.2
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	EUR	-2.3	-6.6	-14.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	1.0	-4.1	-4.0
Currencies					
Euro		USD	0.5	-4.3	2.8
UK Pound Sterling		USD	-0.6	-3.0	0.9
Japanese Yen		USD	1.1	-0.5	5.5
Australian Dollar		USD	-0.9	-3.2	1.2
South African Rand		USD	-1.8	-5.7	10.8
Swiss Franc		USD	0.9	-7.9	6.5
New Zealand Dollar		USD	0.9	-2.8	6.3
Commodities					
Commodities	RICI TR	USD	-1.2	-3.7	-0.6
Agricultural Commodities	RICI Agriculture TR	USD	-3.8	-5.9	-5.2
Oil	Brent Crude Index (ICE) CR	USD	-0.5	1.9	23.1
Gold	Gold index	USD	-3.1	-1.1	27.1

Source: Momentum Global Investment Management Limited / Bloomberg. September 2011

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