Weekly Review

Week ending 17th February 2012

Investors gained an insight into the health of the global economy last week, as a number of countries announced their latest quarterly growth figures. Overall, falls in output during the last three months of 2011 were less severe than predicted. In Europe, Germany's economy contracted by 0.2% versus 0.3% expected, whilst France managed to grow by 0.2% instead of the 0.2% contraction forecast by economists. The news offered a fillip to equity markets, which edged higher over the week, to complete the sixth weekly rise since the start of the year. Global equities gained 1.5% in US dollar terms, with emerging markets adding 2.0%. Realised equity correlations, a measure of the extent to which company shares move in unison with one another, have fallen sharply over this same period, implying greater rewards for active investors. When correlations are high investors discriminate less between businesses, and the markets' movement dominates individual stock movements.

The news was not universally positive however: Italy's gross domestic product (GDP) fell by 0.7% quarter-on-quarter, worse than the -0.6% expected, and confirming that the economy has indeed entered a technical recession defined as two successive quarters of negative growth. Wednesday's preliminary purchasing managers' index (PMI) numbers from Europe will be an important release for investors, as a forward looking indicator of economic activity. Elsewhere Japanese GDP contracted by an annualised rate of 2.3% in the fourth quarter, a sharper decline than predicted by economists, whose consensus forecasts were in the region of -1.3%. Third quarter Japanese growth, however, was revised upwards to 7.0% from 5.6% previously.

Investors appeared indifferent to further negative guidance from commercial ratings agencies, suggesting that the news was not a surprise to the market. Moody's Investor Services placed the UK's prized Aaa rating on negative outlook on Monday, alongside changes to the ratings/outlooks of eight other European sovereigns, including France, Italy, Portugal and Spain; a negative outlook means than there is an above average chance of a ratings downgrade in the near term. As has been a feature of the current debt crisis, Moody's subsequently took action on 114 European banks, which are highly sensitive to the creditworthiness of their respective governments.

Wednesday's planned meeting of eurozone finance ministers was called off on Tuesday evening, after the Eurogroup failed to receive the necessary reassurances from the Greek government's coalition partners that they would stick to the terms of the programme in the future. The meeting was supposed to mark the final approval of Greece's new bailout and is now scheduled to take place today (Monday) at 2.30pm London time. Assuming a positive outcome, seven euro area countries still need parliamentary approval before any new contributions can be made to Greece, including Germany. The formal details of Greece's bond exchange are expected to be unveiled on 22 February. At a joint China-EU summit on Tuesday, Premier Wen Jiabao declined to make any firm guarantees over loans to the Eurozone, stating simply that China would cooperate with ongoing efforts to alleviate the crisis in the single currency area.

In currency markets, the yen depreciated by 2.2% versus the US dollar last week, after the Bank of Japan unexpectedly added JPY 10 trillion to its asset purchase programme on Tuesday. Commodities gained 1.4%, with BHP Billiton and Rio Tinto announcing plans to invest USD 4.5 billion between them in Chile's Escondida copper mine. BHP owns 57.5% of the operation, whilst Rio Tinto holds a 30% stake. BHP said it would also invest USD 195 million to reopen its Pinto Valley copper mine in Arizona, which halted production in 2009. Elsewhere, billionaire hedge fund manager John Paulson has urged investors to consider the merits of gold as protection against inflation caused by government spending. Gold has rallied by 12.5% year to date in US dollar terms. Global government bonds fell by 0.7% last week, with US treasuries and UK gilts both losing ground over the period.

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

Returns to 17 February 2012

Asset Class/Region	Index	Currency	Currency returns Week ending 17 Feb 2012	Month to date	YTD 2012
Equities					
United States	S&P 500 NR	USD	1.4	3.8	8.5
United Kingdom	FTSE All Share TR	GBP	1.2	4.4	7.3
Continental Europe	MSCI Europe ex UK NR	EUR	1.9	4.9	9.6
Japan	Topix TR	JPY	4.0	7.3	11.2
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	0.5	1.1	10.9
Global	MSCI World NR	USD	1.5	3.9	9.1
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	3.0	4.9	20.8
Emerging Asia	MSCI EM Asia NR	USD	2.0	4.4	15.5
Emerging Latin America	MSCI EM Latin America NR	USD	2.1	4.6	17.8
BRICs	MSCI BRIC NR	USD	2.9	5.4	20.4
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.0	4.3	16.1
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.3	-1.0	-0.5
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.3	-0.9	1.4
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.3	-0.2	2.0
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3	1.1	4.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.3	-2.5	-2.3
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.2	-0.8	1.1
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.0	0.5	2.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0	0.5	2.2
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.1	1.9	8.6
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2	0.1	0.3
Australian Government	JP Morgan Australia GBI TR	AUD	-0.4	-1.4	-1.4
Global Government Bonds	JP Morgan Global GBI	USD	-0.7	-1.4	-0.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.5	-0.7	0.8
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.4	2.4	8.3
Emerging Market Bonds	JP Morgan EMBI +	USD	0.6	1.4	2.9

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

Returns to 17 February 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 17 Feb 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT TR	USD	0.5	0.9	7.4
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.2	2.6	8.2
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-0.1	2.0	5.7
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	1.6	1.2	6.9
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	4.6	7.6	19.5
Global Property Securities	FTSE EPRA/NAREIT Developed CR	USD	1.9	3.6	11.6
Currencies					
Euro		USD	-0.2	0.6	1.4
UK Pound Sterling		USD	0.4	0.2	1.8
Japanese Yen		USD	-2.2	-3.9	-3.0
Australian Dollar		USD	0.3	0.8	4.5
South African Rand		USD	0.0	0.8	4.4
Swiss Franc		USD	-0.1	0.2	1.9
Chinese Yuan		USD	0.0	0.1	-0.1
Commodities					
Commodities	RICI TR	USD	1.4	2.1	5.6
Agricultural Commodities	RICI Agriculture TR	USD	1.3	0.0	1.3
Oil	ICE Crude Oil CR	USD	1.2	7.7	11.2
Gold	Gold Index	USD	0.7	-1.2	12.5

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