Weekly Review

Week ending 18th May 2012

Speculation over Greece's continued membership in the Eurozone and the implications of a disorderly exit weighed on investor sentiment last week. Most developed and emerging market indices were down, with emerging Europe equities being hit particularly hard, down 9.3% in US dollar terms.

Greece will return to the polls on 17 June, with senior judge Panagiotis Pikrammenos presiding over a caretaker government in the interim. Latest surveys have shown an increase in support for Syriza, the left-wing party led by former civil engineer Alexis Tsipras. Mr. Tsipras has pledged to renegotiate the terms of Greece's loan programme with the European Union and the International Monetary Fund, highlighting the damage a Greek exit would inflict on the wider euro area. Whilst there may indeed be room for some manoeuvring, Greece is already a 'special case' and Eurozone officials cannot afford to make too many concessions without seriously undermining their creditability. Policymakers also have bargaining power, with polls suggesting that the majority of Greek voters wish to stay as part of the Eurozone. Indeed, the recent election results may help to mobilise this pro-euro, pro-programme vote.

Cutting Greece off from external funding in the event that a new government will not meet the terms of the loan programme would push the country towards a new national currency. Research from Nomura draws comparisons with the breakup of the Ruble Zone in the early 1990s, a process which accelerated after the Central Bank of Russia refused to provide daily credit to the national central banks of the former regions of the Soviet Union. There were reports last week of capital flight from Greek banks, as depositors sought to withdraw their funds from the banking system in mind of possible controls on capital to come. Policymakers can be expected to exhaust all possible avenues of action before allowing Greece to formally exit the Eurozone. The next quarterly disbursement of programme funding is scheduled to take place sometime in the months of July and August.

ECB chief Mario Draghi has so far been reticent on the question of additional stimulus from the central bank. Eurozone gross domestic product was unchanged in the first quarter, surprising economists who had been expecting a contraction in the region's output.

Moody's downgraded a total of 26 Italian banks on Monday, with all those affected seeing their ratings left on negative outlook, signalling a one-in-three chance of further negative ratings action in the next 18 months. The agency subsequently downgraded 16 Spanish banks on Thursday. The interbank market, however, has appeared relatively immune to recent ratings action as well as speculation over Greece.

The latest data from China was softer on balance last week. Of note to investors: (i) Combined net lending by the country's four largest banks was flat in the first two weeks of May, dampening expectations for renewed credit growth; (ii) Car dealerships in China have seen a rise in inventories, implying a decline in end demand; (iii) Home prices fell in 46 out of 70 Chinese cities last month, with April home prices in Beijing and Shanghai declining by 1.0% and 1.3% respectively from their level the same time last year. Analysts continue to debate whether Beijing can successfully manage demand in the economy, having engineered the slowdown in response to rising inflation.

In company news, JP Morgan's share price has fallen by 27% since last week's announcement of losses arising from its synthetic credit portfolio. The cost of insuring JP Morgan debt against a default by the bank has equally risen by 45 basis points over the period. Meanwhile, commentators were left to debate whether Facebook's initial public offering last week – which raised USD 16 billion from equity investors – provides a warning sign for the technology sector. Industry leaders have succeeded in selling equity stakes at the top of the market in recent years, including private equity house Blackstone in 2007 and commodities giant Glencore in 2011.

The broad commodities index fell 0.5% last week, despite agricultural commodities and gold gaining 3.9% and 0.4% respectively. ICE crude oil however, is down 8.9% month to date. Oil production in Saudi Arabia is currently running at 10 million barrels per day, a 10% increase in output compared to this time last year. Geopolitical tensions have eased since Iran held talks with six leading countries (the US, China, Germany, France, the UK and Russia) in Istanbul on 13-14 April.

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

Returns to 18 May 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 18 May 2012	Currency returns: Month to date	Currency returns: YTD 2012
Equities					
United States	S&P 500 NR	USD	-4.2%	-7.2%	3.6%
United Kingdom	FTSE All Share TR	GBP	-5.4%	-7.8%	-2.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.8%	-6.6%	-1.4%
Japan	Topix TR	JPY	-4.3%	-9.8%	0.7%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-6.4%	-11.1%	0.5%
Global	MSCI World NR	USD	-5.1%	-8.7%	0.7%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	-9.3%	-15.7%	-2.2%
Emerging Asia	MSCI EM Asia NR	USD	-5.6%	-10.3%	1.5%
Emerging Latin America	MSCI EM Latin America NR	USD	-8.0%	-13.3%	-4.4%
BRICs	MSCI BRIC NR	USD	-6.7%	-13.2%	-3.0%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-6.5%	-11.4%	-0.1%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.7%	1.2%	1.4%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.0%	1.2%	4.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	0.2%	3.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-1.7%	-1.2%	5.2%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.5%	2.7%	1.0%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.1%	1.0%	3.7%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5%	0.2%	3.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.7%	-0.3%	5.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-2.1%	-1.9%	10.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.6%	1.5%
Australian Government	JP Morgan Australia GBI TR	AUD	1.2%	3.1%	4.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.0%	-0.1%	0.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.4%	-0.7%	1.2%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-2.8%	-4.7%	2.9%
Emerging Market Bonds	JP Morgan EMBI +	USD	-1.9%	-2.4%	3.4%

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

Returns to 18 May 2012

			Currency returns		
Asset Class/Region	**Index**	**Currency**	**Week ending 18 May 2012**	**Month to date**	**YTD 2012**
Property					
US Property Securities	MSCI US REIT NR	**USD**	-6.9%	-6.8%	5.8%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-3.6%	-2.0%	8.7%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-3.4%	-2.9%	4.4%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-2.5%	-2.2%	10.9%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-4.4%	-9.9%	7.7%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	-5.7%	-7.5%	6.9%
Currencies					
Euro		**USD**	-1.7%	-3.9%	-2.0%
UK Pound Sterling		**USD**	-1.8%	-2.7%	1.7%
Japanese Yen		**USD**	0.8%	0.7%	-2.9%
Australian Dollar		**USD**	-2.0%	-5.3%	-3.8%
South African Rand		**USD**	-3.0%	-6.9%	-3.0%
Swiss Franc		**USD**	1.7%	-3.9%	-1.0%
Chinese Yuan		**USD**	-0.3%	-0.3%	-0.5%
Commodities					
Commodities	RICI TR	**USD**	-0.5%	-6.3%	-2.2%
Agricultural Commodities	RICI Agriculture TR	**USD**	3.9%	-2.3%	-1.9%
Oil	ICE Crude Oil CR	**USD**	-3.5%	-8.9%	1.4%
Gold	Gold Index	**USD**	0.4%	-3.7%	3.8%
Hedge Funds	HFRX Global Hedge Fund	**USD**	-0.9%	-1.7%	1.5%

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

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