



FINANCIAL  
PARTNERS

momentum



# Weekly Review

## Week ending 19<sup>th</sup> August 2011

Last Monday marked the anniversary of the end of the Bretton Woods system. Some 40 years have passed since President Nixon announced that the US nation would “temporarily” suspend the convertibility of the dollar into gold. With the price of gold rising to USD 1,879.1 by the end of last week – a gain of 6.5% – the yellow metal is enjoying timely gains as investors continue to question the real value of fiat currencies in the current market environment.

Global equity markets fell by 4.1% last week, pushing month to date losses beyond 13%. At the start of August equities were in positive territory for 2011; by Friday's close they had been shorn of 10.3% of their value from the start of the year, with emerging markets down by 14.2% over the same period. Whilst the US stock market has performed relatively well in local currency terms year to date, these returns have been further depressed in terms of international purchasing power by the downward trajectory of the US Dollar.

Investors reacted to the rising spectre of a new recessionary phase by cutting their expectations for company earnings. The severe dislocation of the Philadelphia Fed Business Survey reading from market expectations on Thursday prompted large sell-offs for equity markets, with the S&P 500 index and the FTSE All Share index both down by 4.5%. The survey reading came in at -30.7, versus 2.0 expected, a sizeable overestimation by the market relative to recent history. The US Empire State Manufacturing Survey, which provides a popular gauge of market sentiment, was negative for the third month in a row in August, at -7.7 down from -3.8 in July. US Industrial Production, on the other hand, exceeded expectations in July, with growth of 0.9% versus consensus expectations for a 0.5% rise, whilst June's number was also revised up, from 0.2% to 0.4%.

The prospect of a further round of quantitative easing in the US was diminished by higher than expected inflation rates, with both headline and core rates exceeding forecasts. Attention is focused on the Federal Reserve, who meet at Jackson Hole on Friday. With the outlook for additional fiscal stimulus tempered by recent issues regarding extending the country's debt ceiling, monetary policy will have to take the lead in any attempts to revive the ailing US economy.

Government bonds rallied last week, with the JP Morgan Global index rising by 1.6%. Extraordinary stresses have kept government 10 year bond yields in the US below their average for the previous decade throughout the whole of 2011, with yields temporarily dipping below 2% on Thursday. Despite its being billed as a significant day for markets, Tuesday's meeting between French President Nicolas Sarkozy and German Chancellor Angela Merkel yielded no new initiatives for dealing with Europe's debt crisis. Proposals were discussed for a financial transactions levy and the equalisation of the corporate tax regimes between the two countries; small steps towards greater fiscal integration. Britain, amongst other countries, has criticised the notion of a levy, given its likely distortionary effects on the preferred locations for doing business were it not to be applied globally. Proposals were also drawn up for a new economic government made up of European heads of state, to oversee the appropriateness of member countries' fiscal policies.

Germany's economy grew by 0.1% during the second quarter. The Eurozone as a whole grew by 0.2%, compared to consensus estimates for growth of 0.3%. Further evidence of a lack of unity between European neighbours emerged, as three countries – Austria, the Netherlands and Slovakia – responded to Finland's unilateral collateral deal with Greece, by demanding similar terms for their own loans to the beleaguered sovereign. Figures released by the ECB showed that it had settled EUR 22 billion of bond purchases during the week ending 12 August, the largest amount since the Securities Market Program (SMP) was created, with this figure expected to rise due to timings over settlement.

Property securities fell by 2.3%, with the UK down by 6.6% in Sterling terms. Australia alone recorded gains over the week of 2.9%. The Dollar fell against the euro, Sterling and the Japanese yen, with year-to-date depreciation of the greenback versus all three currencies surpassing 5%. The Swiss Franc drifted lower versus the US Dollar, as the central bank continued to intervene to weaken the currency. In terms of purchasing power parity, the Franc remains more than one third overvalued as at the time of writing.

**Returns to 19 August 2011**

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 19 August 2011	Month to date	YTD 2011
<b>Equities</b>					
United States	S&P 500 NR	USD	-3.2	-11.6	-8.5
United Kingdom	FTSE All Share TR	GBP	-5.2	-13.0	-12.4
Continental Europe	MSCI Europe ex UK NR	EUR	-6.6	-17.3	-18.7
Japan	Topix TR	JPY	-2.1	-10.7	-15.3
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	-1.8	-13.9	-10.8
Global	MSCI World NR	USD	-4.1	-13.2	-10.3
Global emerging markets	MSCI World Emerging Markets TR	USD	-1.9	-14.6	-14.2
<b>Bonds</b>					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9	3.4	7.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.2	2.4	12.7
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3	1.0	6.8
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.4	-4.4	1.6
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.6	3.3	8.8
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.9	0.6	6.2
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.1	3.7	3.9
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.6	-0.8	1.8
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	0.6	-5.7	-1.7
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.4	0.5	1.5
Australian Government	JP Morgan Australia GBI TR	AUD	1.0	3.3	10.2
Global Government bonds	JP Morgan Global GBI	USD	1.6	3.0	9.5
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.3	2.3	8.7
Global Convertible bonds	UBS Global Convertible Bond	USD	-1.7	-7.8	-5.2
Emerging Market Bonds	JP Morgan EMBI +	USD	1.6	0.4	7.6

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<b>Property</b>					
US Property securities	MSCI US REIT TR	USD	-3.0	-13.0	-3.1
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-6.6	-13.5	-2.3
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-3.8	-13.3	-9.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	2.9	-4.5	-8.2
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-0.7	-12.0	-13.8
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-2.3	-12.6	-6.6
<b>Currencies</b>					
Euro		USD	1.4	0.3	7.5
UK Pound Sterling		USD	1.8	1.0	5.8
Japanese Yen		USD	0.7	1.2	6.4
Australian Dollar		USD	1.1	-4.9	1.9
South African Rand		USD	0.4	-6.4	-7.7
Swiss Franc		USD	-1.7	0.3	18.6
New Zealand Dollar		USD	-0.2	-5.5	5.7
<b>Commodities</b>					
Commodities	RICI TR	USD	-0.3	-5.7	-2.4
Agricultural Commodities	RICI Agriculture TR	USD	1.7	1.2	-3.9
Oil	Brent Crude Index (ICE) CR	USD	1.8	-8.1	16.1
Gold	Gold index	USD	6.5	13.5	30.9



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