FINANCIAL PARTNERS

momentum

ARMYTAGE

Weekly Review

Week ending 20th July 2012

The divergent paths of equities and core global government bonds have been a key determinant of investors' returns over the past 12 to 18 months. Periods of optimism have predictably favoured the former, whilst recurrent bouts of investor anxiety continue to support the multi-decade bull market in government bonds. For once, both asset classes were fairly quiet last week, with global equities rising by a modest 0.5% whilst core government bonds added 0.4%. Instead, commodities saw the biggest moves over the period, as cereal crops and oil rallied sharply.

A portion of investors were again left disappointed by Ben Bernanke's reticence over plans for new stimulus last week, although the Federal Reserve (Fed) Chairman did acknowledge that the "recent economic weakness may prove more persistent than expected". The odds of a third round of quantitative easing appear to have eased in the near term, with the central bank seemingly wary of overplaying its hand in case of an unexpected shock affecting asset prices. The lack of new initiatives from the Fed in the build up to November's Presidential elections may prompt continued volatility in equity markets. On the data front, latest US initial claims figures exceeded consensus estimates, whilst the Philadelphia Federal Reserve's manufacturing survey for July showed activity contracting for the third month in a row. Positive signs continue to emanate from the US housing market, after home builder confidence rose by 6 points in July, its biggest gain since September 2002. US household net worth has risen back towards its long-term trend, although the asset side of household balance sheets remains at risk from a further stock market selloff. The decline in natural gas prices in the US is likely to continue to support consumption, augmenting the level of demand in the economy. So far arbitragers looking to exploit the difference between gas prices in the US and abroad have been frustrated by political considerations, as the US Department of Energy weighs up whether to allow greater exports.

Conditions in Europe remain challenging, with Spanish 10 year government bond yields breaking through the psychologically significant level of 7% once more. International capital flows continue to favour perceived safe haven government bonds. Twenty governments now offer lending rates on two year money of less than 1%, whilst six countries – all of them in Europe – are offering negative yields, with investors proving willing to 'pay up' for access to these investments. The appearance of negative yields gives a clear indication of the current stresses in the system, but may also reflect the segmented nature of capital markets that results in traditional fixed income investors crowding into the dwindling pool of high quality government bonds rather than shifting their portfolios into other asset classes. US 10 year Treasury yields ended the week at 1.46%, 47 basis points above their all time lows, whilst UK Gilts similarly plumbed 1.49% over the period.

The microeconomic environment continues to offer reasonable support for current equity valuations. Earnings reports from US companies were generally ahead of analysts' forecasts last week, although a trend is emerging for better earnings alongside weaker revenues, implying that margin expansion – potentially as a result of companies' retaining leaner workforces – may underlie the current strength of the corporate sector rather than growth in like-for-like sales.

Global property securities added 0.4% last week, led by Australia, whilst commodities rose by 4.1%. Soft commodities in particular continue to see rapid price growth, driven by the worst drought in the US Midwest in half a century. Soya beans, wheat and corn have risen by an average of 24.8% since the start of the month. Oil also rose on tensions in the Middle East, alongside declining stocks, after US oil supplies fell for the fourth consecutive week. Whilst commentators continue to debate whether the commodities supercycle is coming to an end, these moves show that demand and supply remain finely balanced in many commodity markets.

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

Returns to 20 July 2012

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 20July 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	USD	0.5%	0.1%	9.3%
United Kingdom	FTSE All Share TR	GBP	0.0%	1.6%	4.9%
Continental Europe	MSCI Europe ex UK NR	EUR	0.6%	1.4%	5.7%
Japan	Topix TR	JPY	1.7%	-4.7%	2.0%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	3.7%	4.1%	10.2%
Global	MSCI World NR	USD	0.5%	-0.3%	5.6%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	0.9%	0.9%	7.5%
Emerging Asia	MSCI EM Asia NR	USD	1.6%	-0.2%	4.8%
Emerging Latin America	MSCI EM Latin America NR	USD	0.6%	0.9%	0.4%
BRICs	MSCI BRIC NR	USD	1.3%	0.5%	0.9%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.2%	0.2%	4.2%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.3%	1.2%	2.9%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.5%	2.0%	6.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.1%	2.7%	7.5%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.6%	1.3%	8.6%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.4%	1.9%	3.7%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.4%	3.7%	8.9%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.0%	1.4%	5.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.6%	2.2%	8.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.6%	1.8%	13.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2%	0.7%	2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.2%	1.0%	6.4%
Global Government Bonds	JP Morgan Global GBI	USD	0.4%	0.6%	1.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.4%	0.5%	1.8%
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.5%	0.0%	5.0%
Emerging Market Bonds	JP Morgan EMBI +	USD	0.9%	3.6%	10.7%

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

Returns to 20 July 2012

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 20 July 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	-1.2%	0.7%	15.1%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.6%	4.4%	19.2%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.3%	4.3%	15.4%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	2.3%	3.5%	20.6%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	2.1%	3.5%	22.4%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	0.4%	1.9%	17.5%
Currencies					
Euro		USD	-0.6%	-4.1%	-6.3%
UK Pound Sterling		USD	0.6%	-0.3%	0.6%
Japanese Yen		USD	0.8%	1.6%	-2.1%
Australian Dollar		USD	1.6%	1.3%	1.3%
South African Rand		USD	0.0%	-1.1%	-2.3%
Swiss Franc		USD	-0.6%	-4.1%	-5.3%
Chinese Yuan		USD	0.1%	-0.3%	-1.2%
Commodities					
Commodities	RICI TR	USD	4.1%	8.1%	2.5%
Agricultural Commodities	RICI Agriculture TR	USD	5.3%	13.2%	13.0%
Oil	ICE Crude Oil CR	USD	7.5%	15.9%	-0.3%
Gold	Gold Index	USD	-1.2%	-1.4%	3.0%
Hedge Funds	HFRX Global Hedge Fund	USD	0.1%	0.6%	1.8%

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

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