Weekly Review

Week ending 2nd September 2011

Stock market volatility has continued over the past fortnight. Following falls of around 6% for global equities during the third week of August, markets rallied by over 7%, before confidence faltered once again in the lead up to Friday's close. In all, there have been five days of equity market swings greater than 1% in the past fortnight, and three days where the index level has moved by more than 2%, based on daily closing prices.

The recent data flow has itself been variable, and notably weak in parts. The Dallas Fed manufacturing survey fell to -11.4 in August from -2.0 in July, bringing together a disappointing set of regional surveys. The ISM manufacturing index, however, continued to indicate modest expansion, at 50.6 versus 48.5 expected, although the dynamics between inventory growth and new orders appeared less favourable. The Conference Board Consumer Confidence Index fell to 44.5 in August, down from a revised level of 59.2 in July and below consensus forecasts of 52.0. July's personal spending was ahead of expectations at 0.8%, whilst factory orders similarly beat expectations, growing by 2.4% versus forecasts for a 2.0% rise.

Survey data from purchasing managers in Germany, France and Italy lagged economists' expectations, whilst Spain's PMI fell to 45.3 (levels below 50 indicate contraction). The UK index similarly dipped below par of 50 in August, in line with consensus forecasts. In Asia, China's HSBC Services PMI remained above 50, whilst Hong Kong's PMI fell to 47.8. Japan's unemployment rate ticked upwards to 4.7% in July, from 4.6% in June, whilst retail sales grew by less than expected. It is worth noting, however, that the rising unemployment rate came alongside a higher offer-to-applicant ratio; similarly, soft retail data came on the back of three strong months of sales growth, which had lifted activity above pre-earthquake levels.

The Jackson Hole symposium yielded no new round of asset purchases, although market participants drew sufficient positives from Chairman Ben Bernanke's speech for global equities to gain 1.1% last week, led by the Asia Pacific region and the UK. Friday's disappointing nonfarm payrolls release in the US prompted late falls for stock markets, whilst pressure increased on bank share prices, as the Federal Housing Finance Agency announced plans to sue 17 major domestic and foreign banks in relation to asset-backed securities sold to Fannie Mae and Freddie Mac. Global government bonds were flat last week, with modest local currency gains in several markets eroded by the underperformance of European government bonds and the single currency.

New data is set against the now familiar backdrop of extra-ordinary imbalances, which naturally leads to heightened uncertainty amongst investors. Ultimately, successful fiscal contraction requires the complicity of the electorate. In this regard it is interesting to note that Italy's largest union will hold protests tomorrow against proposed cuts to government spending. In Germany, Angela Merkel's Christian Democratic Union was defeated in her home state on Sunday, adding to the ruling party's poor showing in the local elections, which suggests voters' appetite for continued bailouts of the Eurozone's peripheral governments may be waning.

Obstacles continue to frustrate European policymakers' best efforts to manage the area's assorted solvency and liquidity crises. Greece's finance ministry announced that GDP was expected

to contract by between 4.5% and 5.3% in 2011 – down from its previous forecast for a decline of 3.9% – whilst analysts expect the country's budget deficit to GDP ratio to exceed the official target of 7.6%. Policymakers are currently in negotiations with Greece over its sixth tranche of aid, which makes these announcements a particularly untimely surprise.

Italian and Spanish government borrowing rates have risen over the past fortnight, moving above 5% by Friday's close, following reports that Italian Prime Minister Silvio Berlusconi had backtracked on elements of the emergency budget deal, a prerequisite for the Central Bank's original intervention in the secondary bond market. Whilst creditors are understandably keen to see evidence of fiscal prudence, austerity measures will impact growth in the region.

Elsewhere, property securities enjoyed gains last week led by continental Europe and Australia. Commodities excluding agricultural softs posted positive returns, with the price of Brent crude rising by 3.2%. After a temporary fall in prices prompted by the prospect of Libya's return to higher production, oil has advanced over the past fortnight. The strong rise of the Swiss Franc has put pressure on mortgage holders in Poland and Hungary (amongst other Eastern European countries), where home-loans are denominated in the Swiss currency.

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

Returns to 2 September 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 2 Sep 2011	Month to date	YTD 2011
Equities					
United States	S&P 500 NR	**USD**	2.4	-1.2	-3.3
United Kingdom	FTSE All Share TR	**GBP**	3.3	-1.8	-7.9
Continental Europe	MSCI Europe ex UK NR	**EUR**	3.0	-2.2	-15.0
Japan	Topix TR	**JPY**	1.8	-0.1	-13.3
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	3.9	-0.9	-5.7
Global	MSCI World NR	**USD**	1.1	-3.0	-6.8
Global emerging markets	MSCI World Emerging Markets TR	**USD**	4.8	-1.1	-9.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.8	1.0	8.3
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	1.4	1.8	13.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	1.6	1.3	7.2
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	1.6	0.4	2.3
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.2	1.4	8.5
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.3	0.9	5.4
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.3	0.3	3.3
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.8	0.7	2.0
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	1.7	0.4	-1.9
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.0	-0.1	1.2
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.0	-0.2	9.3
Global Government bonds	JP Morgan Global GBI	**USD**	0.0	-0.1	8.6
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.1	-1.4	-3.9
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.6	-1.4	-3.9
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.2	0.1	8.3

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Returns to 2 September 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 2 Sep 2011	Currency returns: Month to date	Currency returns: YTD 2011
Property					
US Property securities	MSCI US REIT TR	**USD**	0.5	-4.1	0.9
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	2.6	-1.4	-0.5
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	4.7	-0.3	-2.6
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	5.0	-0.8	-1.7
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	4.1	-1.1	-9.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	2.2	-2.5	-2.4
Currencies					
Euro		**USD**	-1.1	-1.3	5.9
UK Pound Sterling		**USD**	-0.1	-0.5	3.5
Japanese Yen		**USD**	0.1	-0.4	5.7
Australian Dollar		**USD**	1.3	-0.4	4.1
South African Rand		**USD**	1.5	-1.1	-6.5
Swiss Franc		**USD**	3.6	3.0	19.1
New Zealand Dollar		**USD**	2.0	-0.4	8.9
Commodities					
Commodities	RICI TR	**USD**	1.5	-0.8	2.4
Agricultural Commodities	RICI Agriculture TR	**USD**	-0.7	-1.6	-0.8
Oil	Brent Crude Index (ICE) CR	**USD**	3.2	1.3	22.4
Gold	Gold index	**USD**	4.9	3.4	32.9

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

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