Weekly Review

Week ending 22nd July 2011

European financials and sovereigns sold off at the start of last week, despite the generally upbeat tone of the previous Friday's second round of European bank 'stress tests'. Shares in Barclays, ING and Lloyds TSB all fell by over 7% on Monday, whilst Italian 10 year bond yields rose to an intraday high of above 6%. Monday's broad-based declines for equities preceded a four day rally, with the MSCI World index of global shares up by 2.7% whilst emerging markets rose by 1.7%.

The risk of a limited US default appeared to ease at the start of the week, as some long awaited positive news finally reached the markets. A bipartisan proposal to broadly reduce spending and increase taxes, alongside amendments to the current tax and social services systems, was reported to have received the President's initial approval. The mood soured towards the end of the week, with Republican congressmen apparently unhappy with the mismatch in timing between enlarging the debt ceiling and cuts to public spending. Talks are reported to have broken down again over the weekend.

In Europe, the IMF endorsed proposals for the European Financial Stability Facility (EFSF) to buy Greek debt in the secondary market in advance of Thursday's meeting of European leaders. The proposal, which would directly reduce Greece's outstanding debt on the assumption that purchased bonds were quietly retired, is widely considered the least onerous option for the country out of the range considered to date. The notion of a levy on Europe's banks also gained momentum in the run up to Thursday, with the industry thereby bearing part of the penalty for fiscal mismanagement in Europe's periphery. The summit aimed to address Greece's ongoing funding needs and the extent of private sector involvement in a restructuring of the country's debt. With respect to the former, a new EUR 109bn financing programme for Greece was created, under terms that will also be extended to Portugal and Ireland. The maturity of EFSF loans will be extended from an average of 7.5 years to between 15 and 30 years and interest rates will be lowered to around the EFSF's cost of funding of 3.5%. With respect to private sector involvement, participants opted for a voluntary programme of debt exchange, combining four alternatives which differ with respect to the maturity, coupon rate and level of protection embedded in new 'substitute' bonds. All of the alternatives are priced for a 21% net present value (NPV) haircut using a 9% discount rate; investors should note that were this discount rate to be lowered to closer to Greece's new cost of financing of 3.5%, the NPV haircut would be less. Under these terms the average maturity of Greek government debt would be extended from six to 11 years. Over the period 2011-2019, the total net contribution of private sector investors could be as much as EUR 106bn. European government debt rallied on the announcement, before reversing towards Friday's close. Whilst the International Swaps and Derivatives Association gave guidance that "expressly voluntary" private sector involvement, of the type announced, should not trigger contingent liabilities (credit default swap contracts), the need for the EFSF to receive unanimous approval from member states before being permitted to intervene in the secondary markets may have worried investors. At the time of writing, Italian yields are moving out towards 5.5%, with Spanish debt also taking an upward trajectory.

Macro economic data was mixed last week, with Europe's July flash PMI composite coming in below consensus forecasts, alongside higher than expected initial jobless claims in the US. At the same time the Philly Fed exceeded expectations, whilst June's US housing data also surprised on the upside. The outlook at a micro level remains upbeat, with companies generally exceeding expectations at the start of earnings season. Goldman Sachs was one of the few US companies last week to disappoint, announcing on Tuesday that it had missed its earnings per share target.

Source: Momentum Global Investment Management Limited / Bloomberg July 2011

Returns to 22 July 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 22 July 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	USD	2.2	1.9	7.8
United Kingdom	FTSE All Share TR	GBP	1.4	-0.2	2.7
Continental Europe	MSCI Europe ex UK NR	EUR	2.4	-1.3	1.2
Japan	Topix TR	JPY	1.1	2.3	-2.2
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	3.0	2.0	5.0
Global	MSCI World NR	USD	2.7	1.4	6.7
Global emerging markets	MSCI World Emerging Markets TR	USD	1.7	0.9	1.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.2	1.1	3.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.2	2.0	7.9
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.1	1.5	4.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5	1.2	5.3
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.0	2.0	3.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.1	1.5	4.5
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.7	0.0	0.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0	0.6	2.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	0.7	-0.1	4.7
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0	0.2	0.8
Australian Government	JP Morgan Australia GBI TR	AUD	-0.2	1.5	6.0
Global Government bonds	JP Morgan Global GBI	USD	0.9	1.4	5.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.9	1.0	5.4
Global Convertible bonds	UBS Global Convertible Bond	USD	1.3	-0.2	4.5
Emerging Market Bonds	JP Morgan EMBI +	USD	0.8	0.9	6.0

Source: Momentum Global Investment Management / Lipper Hindsight. July 2011.

Returns to 22 July 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 22 July 2011	Currency returns: Month to date	Currency returns: YTD 2011
Property					
US Property securities	MSCI US REIT TR	**USD**	3.0	5.2	15.4
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-0.1	-1.0	15.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.0	-1.9	5.4
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	0.0	-3.4	-0.6
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	2.2	1.8	-1.6
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	2.6	2.8	9.0
Currencies					
Euro		**USD**	1.7	-0.9	7.1
Sterling		**USD**	1.2	1.6	4.2
Yen		**USD**	0.9	3.1	3.5
Australian Dollar		**USD**	2.0	1.4	5.9
Rand		**USD**	1.8	-0.1	-2.5
Commodities					
Commodities	RICI TR	**USD**	0.9	4.1	5.3
Agricultural Commodities	RICI Agriculture TR	**USD**	-0.4	3.3	-3.6
Oil	Brent Crude Index (ICE) CR	**USD**	-0.4	6.4	26.1
Gold	Gold index	**USD**	0.9	6.4	13.5

Source: Momentum Global Investment Management / Lipper Hindsight. July 2011.

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