Weekly Review

Week ending 23rd March 2012

Global equities declined by 0.9% last week, with all major regions recording modest falls. As the first quarter draws to a close, stock markets nonetheless remain ahead for the month, buoyed by the strong rally seen in the week ending 16 March. The notable exception to this trend has been Asia Pacific excluding Japan, with asset prices in the region continuing to be heavily influenced by the latest news flow from China. Data from China's manufacturing sector continued to indicate a reduction in activity during March, with HSBC's Purchasing Managers' Index falling to 48.1 from 49.6 the previous month. Beijing acted to ease lending conditions in rural areas last week, by reducing the reserve requirement ratio for specific branches of the Agricultural Bank of China Ltd. Some 565 county branches of the bank will see their proportion of required reserves cut by 2%.

Emerging markets (EM) retreated by 2.0% last week, with emerging Europe experiencing the worst of the falls, down 4.1% in US dollar terms. The differing fortunes of developed markets versus EM month to date has narrowed the performance differential between the two so far in 2012. The BRIC economies of Brazil, Russia, India and China are down 5.8% in March, cutting year to date gains to 14.4% and bringing the quartet more in line with the broad EM index.

Global government bonds added 0.8% last week, whilst at the same time investors sought greater premia for lower quality high yield names and debt issued by governments in emerging markets. Year to date, global government bonds have returned -1.3%, whilst improved investor sentiment continues to support US treasury yields above 2.2%. Sellers of derivative products devised to hedge against the risk of bond issuers failing to meet their obligations – so called credit default swap (CDS) contracts – face a bill of around USD 2.5 billion on Greek government bonds, after the final price of the nation's outstanding obligations was agreed at 21.5% of face value. Banks that have sold CDS contracts are obliged to redeem the bonds at face value from current holders, thereby covering the 78.5% shortfall.

Elsewhere in Europe, sentiment remains weak regarding Spain, with the yield on Spanish 10 year government bonds rising by 0.2% last week to 5.4%. Spanish banks' 'bad loans' as a proportion of total lending have reached their highest level since 1994 at 7.9% according to the country's central bank, as record unemployment pushes borrowers into arrears.

Global property securities fell by 1.8% last week, with shares in developed Asia declining by 3.4%. Real estate is one of the main components of household and corporate balance sheets, and the weakness of this area of the market has acted as a meaningful headwind to the global recovery post 2008. As such, the outlook for property markets in major regions remains of keen interest to investors. Confidence amongst US homebuilders remained steady in March at its highest level since June 2007, whilst sales expectations climbed for the sixth consecutive month. The mood was tempered on Friday, however, after month-on-month new home sales growth disappointed forecasters. In China, home prices fell in 45 out of the 70 cities surveyed last month, according to data from the National Statistics Bureau, whilst existing home prices in Beijing and Shanghai fell by 0.2% from their level at the end of January. Despite the news, Chinese officials continue to downplay the prospects for a change in their policy stance, advising that home prices remain considerably above reasonable levels.

In currency markets the euro, British pound and Japanese yen all posted modest gains versus the US dollar, whilst commodity related currencies including the Australian dollar and South African rand lost ground. Commodities fell by 1.3% in aggregate last week according to the Roger's International Commodity Index, with oil and gold providing divergent returns of -0.3% and 0.4% respectively. The head of BHP Billiton's iron ore division warned that year-on-year growth in Chinese steel demand is likely to slow to single-digits, in a clear signal of the company's cautionary outlook on Chinese growth.

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

Returns to 23 March 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 23 March 2012	Currency returns: Month to date	Currency returns: YTD 2012
Equities					
United States	S&P 500 NR	USD	-0.5	2.4	11.5
United Kingdom	FTSE All Share TR	GBP	-1.8	0.3	7.4
Continental Europe	MSCI Europe ex UK NR	EUR	-2.5	0.9	10.4
Japan	Topix TR	JPY	-1.6	2.0	17.1
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-1.6	-3.3	10.8
Global	MSCI World NR	USD	-0.9	0.9	11.1
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	-4.1	-3.4	20.5
Emerging Asia	MSCI EM Asia NR	USD	-1.6	-3.2	13.2
Emerging Latin America	MSCI EM Latin America NR	USD	-2.0	-3.1	14.7
BRICs	MSCI BRIC NR	USD	-3.7	-5.8	14.4
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-2.0	-3.4	14.1
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4	-1.1	-1.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.1	-0.9	1.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3	-1.1	2.0
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.1	-0.2	5.3
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.2	-1.3	-2.4
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.0	-0.2	2.6
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1	-0.1	3.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.4	0.6	5.5
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.4	1.3	12.7
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2	-0.2	0.1
Australian Government	JP Morgan Australia GBI TR	AUD	0.4	-0.4	-1.5
Global Government Bonds	JP Morgan Global GBI	USD	0.8	-1.4	-1.3
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.7	-1.0	0.5
Global Convertible Bonds	UBS Global Convertible Bond	USD	-0.3	-0.2	8.2
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.5	0.0	4.2

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

Returns to 23 March 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 23 March 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	-0.3	3.2	8.5
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-3.2	3.8	10.9
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-2.6	4.4	9.0
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.2	0.0	8.0
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-3.4	-4.9	16.2
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	-1.8	0.0	11.6
Currencies					
Euro		**USD**	0.7	-0.9	2.2
UK Pound Sterling		**USD**	0.1	-0.7	2.1
Japanese Yen		**USD**	1.2	-1.7	-6.6
Australian Dollar		**USD**	-1.2	-3.2	2.0
South African Rand		**USD**	-1.6	-3.5	4.6
Swiss Franc		**USD**	0.8	-0.9	2.9
Chinese Yuan		**USD**	0.2	-0.2	-0.2
Commodities					
Commodities	RICI TR	**USD**	-1.3	-1.4	6.4
Agricultural Commodities	RICI Agriculture TR	**USD**	-1.2	-1.4	1.3
Oil	ICE Crude Oil CR	**USD**	-0.3	0.1	14.5
Gold	Gold Index	**USD**	0.4	-6.0	8.7

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

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