FINANCIAL PARTNERS

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Weekly Review

Week ending 25th May 2012

Last week's moderate global equity market gains provided some respite for investors despite the ongoing issues in Europe, which are discussed in more detail below.

European leaders met on Wednesday for what Herman van Rompuy (President of the European Council) described as "clear the air" talks. The outcome from this meeting was largely consistent with what the market has learnt to expect from European leaders in this crisis. Generally speaking there were no material changes to policy, but no doubt plenty of horse trading behind closed doors and enough tantalising pronouncements to provide exponents of almost any conceivable 'exit strategy' a few sound bites to support their particular proposition. Overall the present political intransigence at a Europe-wide level could well be a consequence of a similar impasse at the domestic political level in Greece, as the view of the Greek electorate will have a significant influence on whether Greece decides to remain within the euro bloc or not. For now, the Greek public seems reasonably Europhilic; in a recent Ethnos/MARC survey 82% of respondents believed that Greece should stay within the European Monetary Union (EMU). On Monday it was announced that the New Democracy (ND) and Democratic Alliance parties could work together in a "pro-European front" against the populist anti European stance taken by other parties and generally, recent polls suggest the ND enjoys some advantage over the anti bailout Syrizia party. While there was little overall change in Europe over the past week, in recent months two important topics are increasingly finding prominence in the region. The first moot point in Europe presently is the continued suggestion of a Greek exit from the euro. Whilst something of a taboo a year ago, this possibility is now raised with increasing frequency in political circles. The will at a European level remains in favour of the Union, and therefore this still remains largely an issue for Greek domestic politics as it would appear unlikely an European nation would be expelled by the Union.

The second area of increasing prominence in the ongoing Eurozone stability strategies debate is the potential for use of a general obligation European bond. Following the European leaders' summit on Wednesday, Jean-Claude Juncker suggested that debate on this topic was "not unheated". Germany continues to maintain a strident anti-Eurobond stance despite the contrary view being suggested by the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD). Indeed, following the meeting Angela Merkel stated that she wished for Greece to remain in the Eurozone, but that the assembled leaders "had different views on Eurozone bonds". In the New York Times over the weekend the central debate was thus summarised: "Should Eurozone countries create common bonds to reduce borrowing costs for members that cannot get affordable credit on their own?" The nature of these bonds is still very much open to debate, for example, should the Eurobond pool be used to replace existing debt or simply used as a new issue? It also remains unclear how countries would gain access to the pool of capital created by such issuance. While the cost of debt for Europe's ailing states continues to rise, Germany continues to benefit from its 'safe haven' status given its midweek issuance of a two year zero coupon note with an average yield of 0.07%. The German 10 year bond finished the week at 1.37% and the 30 year at 1.97% having dipped below 2% for the first time ever last week.

The nature of China's economic slowdown also remains an important consideration for market participants. In an attempt to assuage some doubt regarding the strength of the Chinese economy, Premier Wen Jiabao has suggested that the Chinese government would "attach greater importance to stabilising economic growth". Measures are likely to include initiatives to boost lending, accelerate planning for infrastructure projects and provision of support for consumption. Midweek, China produced a flash Purchasing Managers' Index (PMI) at 48.7, its seventh successive sub 50 print. A score of below 50 is suggestive of purchasing managers reducing spending, a potentially negative economic leading indicator. Chinese leaders noted that "we must proactively take measures to expand demand and to create a favourable policy environment for stable and relatively fast economic growth".

With a backdrop of global equity gains of 0.9% in US dollar terms, global government debt sold off by 0.6%. Global emerging market equities were slightly weaker with returns of -0.3%, with emerging Europe falling further than the other emerging regions. Global property securities outperformed the broader equity index with returns of 1.5%, while oil and gold returned -2.3% and -1.3% respectively.

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

Returns to 25 May 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 25 May 2012	Currency returns: Month to date	Currency returns: YTD 2012
Develloped Market Equities					
United States	S&P 500 NR	**USD**	1.8%	-5,6%	5,4%
United Kingdom	FTSE All Share TR	**GBP**	1,4%	-6.6%	-1.2%
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.4%	-5.3%	0.0%
Japan	Topix TR	**JPY**	-0.5%	-10.2%	0.2%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	-1.1%	-12.0%	-0.5%
Global	MSCI World NR	**USD**	0.9%	-7.8%	1.7%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	-1.5%	-17.0%	-3.7%
Emerging Asia	MSCI EM Asia NR	**USD**	-0.4%	-10.6%	1.1%
Emerging Latin America	MSCI EM Latin America NR	**USD**	0.2%	-13.2%	-4.2%
BRICs	MSCI BRIC NR	**USD**	-0.2%	-13.4%	-3.2%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	-0.3%	-11.7%	-0.5%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.2%	1.0%	1.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.3%	1.0%	4.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.4%	-0.2%	3.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.3%	3.0%	-1.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.3%	3.0%	1.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.0%	1.0%	3.7%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.9%	1.0%	4.3%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.1%	-0.1%	5.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-0.1%	-2.0%	9.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.3%	0.3%	1.2%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.1%	3.0%	4.7%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.6%	-0.7%	-0.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.6%	-1.3%	0.6%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	0.2%	-4.5%	3.1%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.3%	-2.8%	3.1%

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

Returns to 25 May 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 25 May 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	2.6%	-4.4%	8.6%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.1%	-0.9%	9.9%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	3.2%	0.2%	7.7%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	0.5%	-1.7%	11.5%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	0.5%	-9.5%	8.2%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	1.5%	-6.1%	8.5%
Currencies					
Euro		**USD**	-1.7%	-5.5%	-3.6%
UK Pound Sterling		**USD**	-1.1%	-3.7%	0.6%
Japanese Yen		**USD**	-0.4%	0.3%	-3.3%
Australian Dollar		**USD**	-0.9%	-6.1%	-4.7%
South African Rand		**USD**	-0.7%	-7.6%	-3.7%
Swiss Franc		**USD**	-1.7%	-5.4%	-2.6%
Chinese Yuan		**USD**	-0.2%	-0.5	-0.8%
Commodities					
Commodities	RICI TR	**USD**	-2.1%	-8.3%	-4.2%
Agricultural Commodities	RICI Agriculture TR	**USD**	-3.8%	-6.0%	-5.6%
Oil	ICE Crude Oil CR	**USD**	-2.3%	-11.0%	-1.0%
Gold	Gold Index	**USD**	-1.3%	-4.9%	2.5%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.4%	-1.8%	1.5%

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

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