Weekly Review

Week ending 25th November 2011

Last week began with the US's budgetary impasse taking the focus of the markets away from the Eurozone, albeit temporarily. The US Congressional Budgetary Committee failed to reach a bipartisan deficit reduction agreement as last week saw the culmination of three months of negotiations. In doing so the US demonstrated a degree of political intransigence that has been plaguing Europe of late and highlights the political polarisation in the US presently. The next US election is scheduled for November 2012 and last week's difficulties, combined with other recent stalemates, suggests that the impending polls could lead to a year of political nonfeasance in the US economy. Over the weekend, however, the markets have been treated to a dose of better news from the US as today Bloomberg reports that US consumers spent a record USD54.2 billion during the Thanksgiving weekend. Furthermore, the US Commerce Department released data on November 22 which showed US consumer spending up by 2.3% year on year in the third quarter. The US consumer accounts for c.70% of US GDP and therefore any glimmers of positive news will be welcomed by the markets. One area for concern is the detail in the data which suggests that the Q3 spending was funded out of savings. Traditionally solid Black Friday sales should predicate a strong US holiday season, but there is a chance that the embattled consumer has simply brought forward a higher proportion of their holiday spend, enticed by promotions and longer store opening hours.

The US may have begun the week poorly, but by midweek the Eurozone issues had once again become the de rigueur source for a negative headline. Recently there has been an increasing concern relating to larger economies such as Spain and Italy, as opposed to genuinely peripheral states such as Greece. Of more concern are the recent increases in yields that are taking place in Europe's core economies, such as France's yield moving above 3.7%. Speculation continues over France's credit rating and the likelihood of a downgrade, something which was not helped by the downgrade 'notification' sent out in error by S&P earlier in the month. The dominant euro zone bond story was, however, the poor German bund auction on Tuesday which resulted in the Bundesbank effectively buying EUR2.4bn of the otherwise failing EUR6bn bund auction. This came about in part due to Germany's auction method, in which the state acts more as a price setter than a price taker and as a result had the price of the bund at issue been slightly lower it is likely that the auction would have been successful. On the back of this news, the 10 year bund yield rose by nearly 40 basis points through the week, with the yield finishing the week at 2.3%. This increase in yield is suggestive of greater concern in Europe's heartland than merely a spooking of the market following a soft auction.

Elsewhere in the world concern remains over the strength of China's economy. Last week the FT quoted from a leaked regulatory document that the number of property transactions in China's largest cities had fallen precipitously, with the article suggesting that transactions in China's 15 largest cities fell 39% year over year. It is interesting to note that Chinese banks were told earlier in the year to stress test the impact of a 30% decline in housing transactions. Last week there was also a surprise fall in China's HSBC Flash Manufacturing Purchasing Managers' index (PMI) to a 32 month low. This, combined with weaker Japanese exports data released earlier in the week, raises further concerns over a slowdown in Asia.

The above news flow weighed on global markets. Over the course of the week, the MSCI World index provided negative returns every day and interestingly so did the Citigroup WorldBIG index, except for Tuesday, when it was flat. The global equity index fell by 3.9% in US dollar terms with most regions falling similarly in local currency terms. The one exception is Japan, which proved more resilient to the drawdown with a loss of 1.3% in yen terms. Global government bonds posted small positive returns in local currency terms, but dollar strength resulted in a negative return when translated into US dollars. Credit underperformed sovereign debt, while global property securities performed broadly in line with the rest of the equity market, as has been the case for much of 2011. The commodities markets were also generally weaker last week, with the Rogers Broad index slipping by 2.5%.

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

Returns to 25 November 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 25 Nov 2011	Month to date	YTD 2011
Equities					
United States	S&P 500 NR	**USD**	-3.8	-2.9	-2.1
United Kingdom	FTSE All Share TR	**GBP**	-3.1	-3.0	-6.8
Continental Europe	MSCI Europe ex UK NR	**EUR**	-3.6	-5.6	-16.5
Japan	Topix TR	**JPY**	-1.3	-5.8	-18.1
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	-3.6	-6.9	-14.5
Global	MSCI World NR	**USD**	-3.9	-4.7	-7.7
Global Emerging Markets	MSCI World Emerging Markets NR	**USD**	-3.8	-6.1	-16.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.3	0.9	9.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.7	0.5	13.5
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.4	-1.0	6.9
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.7	-1.7	2.8
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.6	1.9	14.1
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.7	-0.6	5.9
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.9	-1.9	0.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-1.0	-1.6	0.4
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-1.0	-2.9	-2.9
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1	0.6	2.2
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.9	2.8	12.7
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.5	-0.4	7.0
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.8	-1.1	5.7
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	-2.3	-3.2	-6.3
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.8	-0.3	8.0

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Property					
US Property Securities	MSCI US REIT TR	USD	-3.3	-4.8	1.8
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-5.5	-6.0	-6.8
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-6.4	-9.6	-15.4
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-3.0	-0.9	-2.8
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-4.0	-8.2	-18.6
Global Property Securities	FTSE EPRA/NAREIT Developed CR	USD	-4.1	-6.8	-7.9
Currencies					
Euro		USD	-1.5	-3.0	0.8
UK Pound Sterling		USD	-1.8	-2.2	0.8
Japanese Yen		USD	0.2	1.4	5.5
Australian Dollar		USD	-2.0	-5.2	-1.9
South African Rand		USD	-3.9	-3.6	-19.3
Swiss Franc		USD	-1.9	-5.0	1.7
New Zealand Dollar		USD	-3.3	-6.6	-2.9
Commodities					
Commodities	RICI TR	USD	-2.5	-2.1	-6.1
Agricultural Commodities	RICI Agriculture TR	USD	-2.2	-4.8	-16.1
Oil	Brent Crude Index (ICE) CR	USD	-3.3	-0.9	17.3
Gold	Gold Index	USD	-3.0	-0.2	21.8

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