Weekly Review

Week ending 26th October 2012

Last week began with the third and final live televised debate between President Obama and Mitt Romney, ahead of the US elections next week (6 November). The discussion focused on foreign spending, with little mention of the European crisis and its implications for activity in the US. Markets were relatively subdued in the aftermath of the debate, with snap polls conducted by CNBC and CBS News awarding the contest to Barack Obama, albeit by a small margin.

Staying in the US, the Federal Open Market Committee's (FOMC) meeting on Tuesday and Wednesday offered few surprises. Consistent with the decisions reached at the FOMC's last meeting in September, officials restated their commitment to the asset purchase program, which will see the Federal Reserve purchase USD 40 billion in mortgage backed securities per month. Sentiment was helped by a slight improvement in US household spending, although growth in business fixed investment was shown to have slowed. Data releases continue to point towards a housing recovery alongside improving conditions in the labour market, as new home sales recorded their biggest rise in more than two years (up by 389,000 in September) and initial jobless claims fell by more than expected (down 23,000 to 369,000) in the week ending 20 October.

Fourth quarter earnings season remains the focus of attention for investors, with 273 out of 498 companies in the S&P 500 index having reported by the end of last week. The trend of companies reporting better-than-expected earnings per share (EPS) results, balanced by weak top line growth, continues to gather momentum. Hotly anticipated fourth quarter figures from Apple saw the technology giant miss consensus EPS figures (1% below market consensus) as a result of lower margins and supply side constraints, prompting a 2% decline in Apple's share price from its intraday highs on Thursday.

In Europe, talks continue to take place between the Troika and Greek officials, aimed at helping the latter to manage its restructured debt repayments. Whilst Greek Finance Minister Yannis Stournaras came out to say that a deal had been struck on Tuesday, the government's junior coalition partners have yet to agree to the labour and structural reforms package required in order for Greece's creditors to grant the country a further two years to meet its fiscal targets. Troika officials met in Brussels to discuss ways of raising the additional EUR 18 billion needed to fund the programme (in addition to the EUR 174 billion already handed over as part of Greece's second bailout). EU officials are keen to reach an agreement before the next Economic and Financial Affairs Council (ECOFIN) meeting on 13 November, and will be looking to find alternatives to implementing further haircuts on Greek debt.

The euro area's composite Purchasing Managers' Index (PMI) dropped to its lowest level since June 2009 in September, with both manufacturing and service PMIs in Germany and France recording sub 50 prints (readings of less than 50 indicate a contraction in reported activity levels by companies). Germany's Ifo index, a measure of local business sentiment, also posted poor results after dropping to 100.0 in September, its sixth consecutive monthly decline and the lowest reading since February 2010. A cut of EUR 6.4 billion in pension contributions, as approved by German officials on Thursday, forms the first part of a modest economic stimulus package aimed at reinvigorating the economy.

The UK economy grew at its fastest pace in five years during the third quarter, after latest figures from the Office for National Statistics (ONS) showed gross domestic output expanding by 1% between July and September. The better than expected GDP figures spurred a rally by sterling on Thursday, as the pound appreciated by 0.5% against the US dollar to close at GBPUSD 1.62. Japan also did its bit to support market sentiment, with the government responding to calls from the Bank of Japan by putting together a JPY 400 billion stimulus package, to complement the Bank's own asset purchase programme.

Turning to markets, major asset classes performed poorly across the board last week, with global developed equities, bonds and property securities falling by 1.7%, 0.3% and 1.2% respectively. In commodity markets, benchmark iron ore rose to a three month high of USD 120 a tonne on Thursday, following continued demand for restocking from Chinese steel mills.

Source: Lipper Hindsight / Bloomberg. Returns in US dollars unless otherwise stated. October 2012.

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Returns to 26 October 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 26 October 2012	Currency returns: Month to date	Currency returns: YTD 2012
Developed Market Equities					
United States	S&P 500 NR	USD	-1.5%	-1.9%	13.7%
United Kingdom	FTSE All Share TR	GBP	-1.4%	1.4%	9.7%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.8%	1.0%	13.8%
Japan	Topix TR	JPY	-1.7%	0.5%	4.1%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-0.9%	1.5%	19.3%
Global	MSCI World NR	USD	-1.7%	-0.8%	12.1%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	-3.0%	-0.6%	16.1%
Emerging Asia	MSCI EM Asia NR	USD	-1.6%	-1.4%	12.4%
Emerging Latin America	MSCI EM Latin America NR	USD	-1.3%	0.4%	4.6%
BRICs	MSCI BRIC NR	USD	-1.4%	0.8%	8.2%
South Africa	FTSE JSE All Share TR	USD	0.0%	-1.4%	10.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.5%	-1.1%	10.8%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.1%	-0.5%	1.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.0%	0.1%	6.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.3%	0.9%	9.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.3%	0.9%	13.2%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	-0.9%	2.1%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	0.6%	11.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.2%	0.6%	8.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.8%	11.2%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.4%	2.0%	22.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.0%	1.9%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.2%	-0.9%	5.4%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	-0.7%	2.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.3%	-0.2%	4.2%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-0.6%	-0.1%	9.9%
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.8%	0.7%	15.1%

Source: Lipper Hindsight, October 2012.

Returns to 26 October 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 26 October 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	-2.7%	-1.9%	11.8%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-0.4%	3.7%	25.0%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-1.5%	4.2%	21.2%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	0.6%	4.7%	30.2%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	0.8%	2.5%	36.5%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	-1.2%	0.4%	22.1%
Currencies					
Euro		USD	-0.8%	0.5%	-0.4%
UK Pound Sterling		USD	0.5%	-0.3%	3.6%
Japanese Yen		USD	-0.2%	-2.2%	-3.3%
Australian Dollar		USD	0.2%	-0.4%	1.1%
South African Rand		USD	-0.3%	-4.6%	-6.7%
Swiss Franc		USD	-0.8%	0.5%	0.0%
Chinese Yuan		USD	0.1%	0.6%	0.7%
Commodities & Alternatives					
Commodities	RICI TR	USD	-2.5%	-4.0%	1.3%
Agricultural Commodities	RICI Agriculture TR	USD	-1.6%	-1.6%	6.2%
Oil	ICE Crude Oil CR	USD	-3.6%	-2.5%	1.0%
Gold	Gold Index	USD	-1.2%*	-3.4%*	12.0%*
Hedge Funds	HFRX Global Hedge Fund	USD	-0.3%*	-0.3%*	2.4%*

* *Estimate*

Source: Lipper Hindsight, October 2012.

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