FINANCIAL PARTNERS

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Weekly Review

Week ending 27th April 2012

Global equities gained 1.4% last week in US dollar terms, after rallying over the final four trading sessions. The US led the way in developed markets, with a total return of 1.8%, whilst in emerging markets (EM) the BRIC quartet of Brazil, Russia, India and China declined by 1.5% in US dollar terms, to leave EM equities marginally behind over the period.

European stocks sold off at the start of last week, declining by 2.7% on Monday as Spanish equities traded through their 2003 lows intraday. Political events in Europe over the weekend of 21 April appear to have caused this downward shift by equity markets, with Dutch Prime Minister Mark Rutte's resignation pitching another core Eurozone government into confusion. Dutch politicians subsequently rushed to agree a draft 2013 budget, in time for the European Union's deadline: EU members must submit outline budget proposals to Brussels by today (30 April), consistent with the limits on borrowing set out in the region's new fiscal compact.

UK gross domestic product contracted by 0.2% last quarter according to the Office for National Statistics. The news confirms that the UK has entered a technical recession, defined as two consecutive quarters of negative growth in output, after GDP shrunk by 0.3% during the three months to the end of December. Britain joins Greece, Italy, Portugal, Ireland, Belgium, Denmark, Holland, the Czech Republic and Slovenia amongst European countries currently in recession. The negative GDP print was due principally to a 3.0% quarter-on-quarter fall in construction. Recent surveys of business leaders have pointed to an improvement in many areas of the UK economy, contrary to these latest output figures.

Tough austerity measures in Europe appear to be putting pressure on the region's growth. This is a difficult time for governments, as faltering growth leads to lower tax receipts, whilst higher unemployment requires the state to increase its spending on social welfare. In sum, the need to borrow money may continue to rise in spite of government belt tightening. The average debt of the 17 nation euro area rose to 87.2% of GDP in 2011, up from 85.3% in 2010 and its highest level since the introduction of the single currency in 1999. In contrast to Europe's orthodox prescription of austerity alongside structural adjustment programmes, on the other side of the Atlantic the US continues to talk tough on the need to reduce its deficit, whilst in reality using government spending to support growth. The recent strength of areas of the US economy has prompted members of the Federal Open Market Committee to revise their outlook for interest rates. Only four members of the committee now expect the first hike in interest rates to take place as far out as 2014, down from six members previously. It is clear that the US enjoys a number of unique advantages over other countries that allow it to run a considerably higher budget deficit, most notably the pre-eminence of the US dollar as the basis for international trade.

In Asia, the Bank of Japan announced additional asset purchases of JPY 10 trillion last week. Bank officials were equally bullish on the prospects for inflation to rise to 1%, a positive sign for an economy that has experienced persistent deflation since 1998. South Korea's GDP grew by 0.9% last quarter in line with market expectations. Nonetheless, the year-on-year increase in gross domestic product of 2.8% represents the country's weakest rate of growth in two and a half years.

Global government bonds added 0.9% last week, as government debt in all major developed regions posted gains, alongside a 0.3% rise by emerging market bonds. Standard & Poor's (S&P) downgraded Spanish government debt by two notches on Thursday evening to BBB+ (negative outlook), from A (negative outlook) previously. The move follows the agency's double notch downgrade of Spain's rating in January. To put these moves into context, Spain went into 2008 with a triple-A rating from S&P.

Finally, commodities gained 1.4% last week in US dollar terms, as agricultural commodities, gold and oil all posted gains. Trading in cattle futures was suspended on Tuesday, after prices hit the day's lower limit following reports of a case of mad-cow disease in central California.

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

Returns to 27 April 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 27 April 2012	Currency returns: Month to date	Currency returns: YTD 2012
Equities					
United States	S&P 500 NR	USD	1.8%	-0.3%	12.1%
United Kingdom	FTSE All Share TR	GBP	0.1%	0.3%	6.4%
Continental Europe	MSCI Europe ex UK NR	EUR	0.8%	-2.9%	6.3%
Japan	Topix TR	JPY	-0.9%	-5.9%	11.6%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	0.2%	0.9%	12.3%
Global	MSCI World NR	USD	1.4%	-0.8%	10.7%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	-0.1%	-2.6%	16.2%
Emerging Asia	MSCI EM Asia NR	USD	-0.3%	-1.2%	11.9%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.3%	-3.8%	10.2%
BRICs	MSCI BRIC NR	USD	-1.5%	-2.5%	10.9%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.1%	-1.9%	12.0%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.2%	1.5%	0.1%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.5%	2.1%	2.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2%	1.2%	3.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.7%	0.9%	6.3%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.3%	0.5%	-1.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.4%	-0.3%	2.5%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4%	-0.6%	2.9%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	-0.1%	5.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.7%	-0.8%	11.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	0.6%	0.8%
Australian Government	JP Morgan Australia GBI TR	AUD	1.0%	2.3%	1.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.9%	1.3%	0.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.7%	0.9%	1.8%
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.8%	-0.5%	8.1%
Emerging Market Bonds	JP Morgan EMBI +	USD	0.3%	1.6%	5.7%

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

Returns to 27 April 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 27 April 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	2.4%	3.0%	13.8%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.2%	1.6%	12.2%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.6%	-1.1%	8.3%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	1.1%	4.6%	12.3%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	0.8%	1.7%	18.5%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	1.8%	2.3%	15.5%
Currencies					
Euro		USD	0.4%	-0.4%	2.1%
UK Pound Sterling		USD	0.8%	1.6%	4.5%
Japanese Yen		USD	1.4%	2.3%	-4.4%
Australian Dollar		USD	0.7%	0.8%	1.8%
South African Rand		USD	0.6%	-1.0%	4.2%
Swiss Franc		USD	0.4%	-0.2%	3.2%
Chinese Yuan		USD	0.0%	-0.2%	-0.3%
Commodities					
Commodities	RICI TR	USD	1.4%	-0.8%	4.4%
Agricultural Commodities	RICI Agriculture TR	USD	1.6%	-1.5%	0.4%
Oil	ICE Crude Oil CR	USD	0.9%	-3.2%	11.2%
Gold	Gold Index	USD	1.3%	0.1%	8.7%
Hedge Funds	HFRX Global Hedge Fund	USD	0.2%	-0.1%	3.0%

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

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