Weekly Review

Week ending 27th July 2012

Last week had two distinct sections. The first portion of the week was dominated by negative sentiment and increasing investor anxiety as equity markets – and the debt of peripheral sovereigns – sold off. The final two days of the week, however, were buoyed by positive pronouncements, from Mario Draghi in particular, which calmed nerves and increased confidence that the European sovereign debt crises can remain contained.

The week started poorly as the previous week's issues surrounding Spain and Italy continued to dominate the newswires. On the previous Friday, the Valencia region had requested support from the central government and this tainted Monday's open. The peripheral states would remain a key focus for the markets throughout the week, with 10 year yields continuing to drift to 6.60% for Italy and euro-era highs of 7.62% for Spain. Perhaps even more concerning action occurred at the front end of the yield curve, with the Spanish two year yield spiking above 7% on an intraday basis by Wednesday. This led to a yield spread of less than 1% between the two and 10 year issues. While increases in 10 year yields are undoubtedly difficult to manage, the fact yields for the shorter tenor debt are now at a similar level will be difficult for Spain. Conversely as the situation worsened in the peripheral European states, yields in 'core' sovereign issues continued to pull lower as the 10 year US treasury, UK gilts and German bund troughed at 1.387% (the first ever close below 1.4%), 1.459% and 1.236% respectively.

As conditions in the periphery worsened, expectations for some degree of intervention increased. European Central Bank (ECB) president Mario Draghi began the week by suggesting to Le Monde that "we are very open and we do not have any taboos". While this was not immediately becalming this set the tone for Mr Draghi's pronouncement later in the week which sparked a two day rally. On Thursday last week, Mr Draghi added further to speculation that new initiatives were in the pipeline with the comments that "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro...it will be enough". This rhetoric is strong and appears intended to send a clear message to the markets. On Friday the German Finance Minister suggested that Germany, like the ECB, will do all in its power to hold the euro together, something which can be seen as a tacit endorsement of Draghi's words. In order to avoid disappointment this week it would now appear almost a prerequisite that the ECB meeting on 2 August provides substantive measures to improve conditions in Europe. A failure to provide this would no doubt be penalised by the markets.

Following Draghi's proposition, Italian and Spanish bond yields fell sharply and the global equity market, as demonstrated by the MSCI World index, rallied by nearly 4% in the final two days of the week. Over the course of the week, global equities returned 1.5%. The US market is presently in reporting season and overall Earnings per Share (EPS) results have beaten expectations, but sales revenue per share continue to underwhelm. This demonstrates the keen eye that corporations still have for costs and ultimately suggests a reason for why this global recovery remains weak despite the size of stimulus packages thrown at it. In the UK, data confirmed that the economy shrank for a third quarter in succession. This was largely expected by economists, but the magnitude of the fall in activity was a surprise, with the quarter on quarter GDP figure of -0.7% compared to consensus of -0.2%.

Against the backdrop of a global equity rally of 1.5% over the week, global emerging markets equities gained 0.6% while global government bonds returned 0.1%. The US dollar fell by 1.7% against the euro and 0.5% against sterling, which provided a tailwind to foreign bond returns when expressed in US dollar terms. Gilts, treasuries and European government bonds were all in negative territory in local currency terms by the end of the week. Investment grade corporate bonds generally sold off in concert with their government counterparts, while high yield provided mixed results and global convertibles returned 1.0%. Generally last week, commodities were weaker, with the exception of gold which rallied by 2.7%.

Looking ahead, in addition to the ECB meeting on Wednesday and Thursday this week, there are also meetings of the US Federal Open Market Committee and The Bank of England on Thursday.

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

Weekly Review

Week ending 27th July 2012

Returns to 27 July 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 27July 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	USD	1.7%	1.8%	11.1%
United Kingdom	FTSE All Share TR	GBP	-0.3%	1.2%	4.6%
Continental Europe	MSCI Europe ex UK NR	EUR	1.9%	3.3%	7.7%
Japan	Topix TR	JPY	-1.0%	-5.7%	0.9%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	0.3%	4.4%	10.5%
Global	MSCI World NR	USD	1.5%	1.2%	7.2%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	1.2%	2.1%	8.8%
Emerging Asia	MSCI EM Asia NR	USD	-0.7%	-0.8%	4.1%
Emerging Latin America	MSCI EM Latin America NR	USD	2.6%	3.4%	2.9%
BRICs	MSCI BRIC NR	USD	0.3%	0.9%	1.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.6%	0.8%	4.7%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.5%	0.7%	2.4%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.7%	1.2%	5.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.5%	2.2%	7.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.1%	1.4%	8.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.4%	1.5%	3.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.5%	3.2%	8.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.2%	1.2%	4.9%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.5%	1.7%	7.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.6%	1.2%	13.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1%	0.7%	2.0%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.5%	0.5%	5.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.1%	0.7%	1.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.2%	0.7%	2.0%
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.0%	1.0%	6.1%
Emerging Market Bonds	JP Morgan EMBI +	USD	0.1%	3.6%	10.8%

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

Weekly Review

Week ending 27th July 2012

Returns to 27 July 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 27July 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	0.9%	1.6%	16.2%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.1%	5.6%	20.5%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.5%	5.8%	17.1%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-0.1%	3.4%	20.6%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	0.0%	3.5%	22.4%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	0.8%	2.8%	18.5%
Currencies					
Euro		USD	1.7%	-2.5%	-4.7%
UK Pound Sterling		USD	0.5%	0.2%	1.1%
Japanese Yen		USD	-0.1%	1.5%	-2.1%
Australian Dollar		USD	0.6%	1.9%	1.9%
South African Rand		USD	1.1%	0.0%	-1.3%
Swiss Franc		USD	1.7%	-2.5%	-3.7%
Chinese Yuan		USD	-0.1%	-0.4%	-1.4%
Commodities					
Commodities	RICI TR	USD	-1.7%	6.2%	0.7%
Agricultural Commodities	RICI Agriculture TR	USD	-3.4%	9.4%	9.2%
Oil	ICE Crude Oil CR	USD	-1.9%	13.7%	-2.2%
Gold	Gold Index	USD	2.7%	1.2%	5.7%
Hedge Funds	HFRX Global Hedge Fund	USD	-0.4%	0.2%	1.5%

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

Important notes

This document does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this document, and should be satisfied in doing so that there is no breach of local legislation or regulation. The information is intended solely for use by our clients or prospective clients, and should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should inform themselves and if need be take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this material is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated herein. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum Global Investment Management Limited does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

We caution that the value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Our investment mandates in alternative strategies and hedge funds permit us to invest in unregulated funds that may be highly volatile. Although alternative strategies funds will seek to follow a wide diversification policy, these funds may be subject to sudden and/or large falls in value. The illiquid nature of the underlying funds is such that alternative strategies funds deal infrequently and require longer notice periods for redemptions. These Investments are therefore not readily realisable. If an alternative strategies fund fails to perform, it may not be possible to realise the investment without further loss in value. These unregulated funds may engage in the short selling of securities or may use a greater degree of gearing than is permitted for regulated funds (including the ability to borrow for a leverage strategy). A relatively small price movement may result in a disproportionately large movement in the investment value. The purpose of gearing is to achieve higher returns associated with larger investment exposures, but has concomitant exposure to loss if positive performance is not achieved. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund's infrequent valuation points).

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management Limited (Company Registration No. 3733094) and has its registered office at 20 Gracechurch Street, London, EC3V 0BG.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Services Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.