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# Weekly Review

Week ending 28<sup>th</sup> October 2011

European officials unveiled a three pronged plan for dealing with the region's debt crisis at Wednesday's summit. Officials outlined a new deal for Greek bondholders, whilst at the same time increasing the resources of the European Financial Stability Fund (EFSF) and forcing the region's banks to raise new capital. A haircut of around 50% will be applied on Greek government bonds, other than those held by the European Central Bank, with the aim of bringing Greece's debt to GDP ratio down to 120% by 2020. France was reported to have been against proposals to increase the extent of private sector involvement through greater haircuts, but eventually conceded to the plans. Officials remain keen to avoid a credit event, which would trigger contingent liabilities for issuers of credit default swap contracts. Credit events do not include 'voluntary' restructurings of the type envisioned by the summit's attendees.

Despite the majority of Wednesday's proposals having been mooted in the press for some time, investors nonetheless reacted positively to the outcome of the summit, with stocks in Continental Europe rising by 4.7% in euro terms. Global equities gained 5.0% in US Dollar terms last week, bringing month to date returns in October to 13.7%. Improved sentiment saw the spread between corporate and government borrowing rates narrow over the period, with broad investment grade bonds (including corporates) gaining 0.9%, whilst the government component added 0.6%. Convertibles rose by 3.9%, whilst high yield bonds in the US and Europe gained 2.4% and 3.4% respectively in local currency terms.

With respect to the capital adequacy of Europe's banking sector, the region's largest banks will be obliged to increase their Tier 1 capital ratios to 9% before 30 June 2012, and will be subject to restrictions on paying distributions to shareholders until they have met this target. There remains uncertainty over what form of bank assets will count towards this capital. The European Banking Authority (EBA) is reported to prefer a narrower definition in line with that applied under the Basel III regulatory standard.

The latest EBA bank stress tests revealed a shortfall of EUR 106 billion. Banks will be required to try and raise this capital themselves, before seeking state aid, and then finally the support of the EFSF.

The EFSF is likely to insure a portion of losses for holders of European government debt, whilst a special purpose vehicle is being devised to attract investment from investors in emerging markets. The Fund's head, Klaus Regling, travelled to China and Japan over the weekend in search of support. Whilst Chinese officials chose to defer any decision pending the release of more details on the plan, Japan indicated its willingness to purchase more EFSF paper. The total resources of the fund will depend on the eventual size of Greece's bailout, but are expected to be in the region of EUR 1 trillion.

HSBC's Chinese Flash Manufacturing index broke into expansionary territory for the first time in three months in October. China is reported to be taking steps towards financial deregulation, by allowing a limited number of local authorities to issue bonds. Estimates put the value of the country's municipal debt at RMB 20,100bn (USD 3,160 billion). Over the summer the Ministry of Finance struggled to sell bonds of behalf of local authorities.

In currency markets, the USDJPY exchange rate fell to a historical low of 75.71 on Friday. The Dollar was weaker over the period against a basket of major currencies, with the Australian Dollar and the South African Rand appreciating by over 3.5% versus the greenback.

Global property securities added 6.8% last week, led by the US and Asia, with new measures being unveiled in the former to assist mortgage owners and alleviate pressures in the lending market. Commodities rose by 4.0% in aggregate, whilst gold added 6.0% following its recent falls.

## Returns to 28 October 2011

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 28 Oct 2011	Month to date	YTD 2011
<b>Equities</b>					
United States	S&P 500 NR	USD	3.8	13.7	3.4
United Kingdom	FTSE All Share TR	GBP	4.0	10.9	-1.2
Continental Europe	MSCI Europe ex UK NR	EUR	4.7	10.9	-9.1
Japan	Topix TR	JPY	3.7	1.4	-12.2
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	9.5	14.8	-6.9
Global	MSCI World NR	USD	5.0	13.7	-0.2
Global emerging markets	MSCI World Emerging Markets TR	USD	9.8	14.9	-10.2
<b>Bonds</b>					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.4	-1.5	7.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.7	1.1	12.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.8	1.1	7.3
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	2.4	6.2	4.7
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.6	-0.3	10.4
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.6	0.8	5.5
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.0	-2.1	1.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.1	1.5	1.7
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	3.4	7.2	0.2
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1	-0.1	1.6
Australian Government	JP Morgan Australia GBI TR	AUD	-0.2	-1.1	9.3
Global Government bonds	JP Morgan Global GBI	USD	0.6	1.3	8.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.9	1.8	7.6
Global Convertible bonds	UBS Global Convertible Bond	USD	3.9	7.9	-1.6
Emerging Market Bonds	JP Morgan EMBI +	USD	1.9	4.5	8.4

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



## Returns to 28 October 2011

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 28 Oct 2011	Month to date	YTD 2011
<b>Property</b>					
US Property securities	MSCI US REIT TR	USD	6.5	15.5	8.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	2.9	9.1	0.9
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.7	6.4	-5.4
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	1.9	4.1	-1.5
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	EUR	8.8	14.7	-9.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	6.8	14.5	0.4
<b>Currencies</b>					
Euro		USD	2.0	5.7	5.7
UK Pound Sterling		USD	1.2	3.6	3.1
Japanese Yen		USD	0.5	1.7	7.1
Australian Dollar		USD	3.7	10.3	4.6
South African Rand		USD	4.8	4.2	-14.2
Swiss Franc		USD	2.4	5.3	8.1
New Zealand Dollar		USD	2.6	7.6	5.2
<b>Commodities</b>					
Commodities	RICI TR	USD	4.0	9.0	-3.2
Agricultural Commodities	RICI Agriculture TR	USD	1.5	4.5	-10.5
Oil	Brent Crude Index (ICE) CR	USD	2.2	6.6	19.5
Gold	Gold index	USD	6.0	7.5	23.4



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