Weekly Review

Week ending 30th September 2011

Global equities completed a run of three consecutive positive days last week, before giving back some of the gains towards Friday's close. The MSCI World index rallied by 1.0% last week, led by Continental Europe, with emerging markets adding 2.2% in US Dollar terms. Sentiment was aided by progress in Europe, with five more countries ratifying July's proposals to increase the paid-in value of the bailout fund. Only Malta, the Netherlands and Slovakia are still to vote on changes to the European Financial Stability Fund (EFSF). Suggestions that European ministers may look to leverage the EFSF along similar lines to the Troubled Asset Relief Programme in the US were dismissed by German officials, although the plan remains the subject of speculation.

Commentators continue to debate the appropriateness of government austerity measures alongside reduced spending by households and companies. The poor state of government finances in much of the developed world reduces the scope for greater fiscal expansion to make up the shortfall in aggregate demand. Current low government bond yields amongst the majors may prove transitory in the event that governments use the opportunity to expand their balance sheets more aggressively. Central banks may be forced to pursue less conventional stimulus policies, such as the Federal Reserve's lengthening of its balance sheet ('Operation Twist'). The paradox of thrift means that attempts to consolidate spending may ultimately foster a vicious cycle, as the demand shortfall feeds into lower employment, and lower employment in turn puts pressure on demand.

Investment grade bonds fell by 80 basis points during the week, with the spread to government debt contracting slightly. Emerging market debt gained 0.3%, reversing some of the losses suffered earlier in the month. Some of the moves in high quality emerging market bonds may have become overdone. Developed government bond yields continue to suggest little to no growth in the next decade, twinned with tepid price growth or even deflation. Such a 'lost decade' is clearly not without precedent, however policy makers are better informed than ever before of the imperative to foster an enabling environment for risk taking and new enterprises.

José Manuel Barroso, president of the European Commission, lent his support to the introduction of a Tobin style tax on financial transactions last week, which would see authorities collect a small percentage of the fee banks charge in their role as market makers. Business leaders and politicians have argued that a tax within the European Union could make the region uncompetitive internationally, prompting businesses to relocate elsewhere. A proposed tax of 10 basis points on bond transactions and 1 basis point on derivative transactions is estimated to raise in the region of EUR 57 billion per annum. Whilst relatively few examples of Tobin taxes are available, such policies have not always yielded the levels of revenue forecast. Britain, as a major centre for financial transactions, is strongly opposed to the proposed levy.

Second quarter growth in the US was revised up to 1.3% from 1.0% previously, due to a higher consumption component. Initial jobless claims also fell by more than expected, down by 37 thousand to 391 thousand for the week ending 23 September. Singapore surprised economists, with industrial production rising by 3.9% in August versus. expectations for a 5% fall. In Korea, however, industrial production fell by 1.9% month on month in August, some six times worse than forecast. Japanese PMI data fell into contractionary territory in September, whilst China's flash manufacturing index remained below 50 for the third month in a row, with a print of 49.9 in September.

Prospects of a rate cut by the European Central Bank (ECB) were reduced by the region's higher than expected inflation reading on Friday, with price growth coming in at 3.0% year-on-year versus forecasts of 2.5%. Thursday's ECB meeting will be Jean Claude Trichet's last as President of the Bank, with his departure potentially signalling a change in policy stance in the future. Mr. Trichet will be replaced by Bank of Italy governor Mario Draghi.

Global property securities fell by 0.5%, to underperform the broader equity market in September. The US Dollar was mixed with respect to a broad basket of currencies, notwithstanding clear Dollar strength in respect of the month as a whole. Gold fell by 4.1% last week with oil down by 1.8% and the broad commodities index similarly declining by 2.0%.

Source: Momentum Global Investment Management Limited / Bloomberg. September 2011

Returns to 30 September 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 30 Sep 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	**USD**	-0.4	-7.1	-9.1
United Kingdom	FTSE All Share TR	**GBP**	1.1	-5.0	-10.9
Continental Europe	MSCI Europe ex UK NR	**EUR**	5.6	-5.7	-18.1
Japan	Topix TR	**JPY**	3.2	-0.3	-13.4
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	1.6	-14.1	-18.2
Global	MSCI World NR	**USD**	1.0	-8.6	-12.2
Global emerging markets	MSCI World Emerging Markets TR	**USD**	2.2	-14.6	-21.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.5	1.6	9.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-1.0	-0.2	10.9
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.5	0.3	6.1
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	1.8	-3.3	-1.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.3	3.6	10.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.4	0.2	4.6
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.2	0.8	3.9
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.1	-1.2	0.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.1	-4.2	-6.5
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.3	0.5	1.8
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.7	1.0	10.5
Global Government bonds	JP Morgan Global GBI	**USD**	-0.9	-1.4	7.1
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.8	-2.0	5.7
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-0.9	-6.5	-8.8
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.3	-4.1	3.8

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Property					
US Property securities	MSCI US REIT TR	USD	-1.5	-11.1	-6.5
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.2	-8.4	-7.6
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	3.5	-9.1	-11.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	3.0	-4.5	-5.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	EUR	-0.4	-13.8	-20.8
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-0.5	-12.4	-12.3
Currencies					
Euro		USD	-0.8	-6.8	0.0
UK Pound Sterling		USD	0.9	-4.3	-0.5
Japanese Yen		USD	-1.1	-0.8	5.2
Australian Dollar		USD	-0.8	-9.3	-5.2
South African Rand		USD	2.9	-12.9	-17.7
Swiss Franc		USD	-0.6	-11.2	2.6
New Zealand Dollar		USD	-1.9	-10.5	-2.2
Commodities					
Commodities	RICI TR	USD	-2.0	-14.0	-11.1
Agricultural Commodities	RICI Agriculture TR	USD	-3.1	-15.0	-14.3
Oil	Brent Crude Index (ICE) CR	USD	-1.8	-7.2	12.1
Gold	Gold index	USD	-4.1	-10.7	14.8

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