Weekly Review

Week ending 30th November 2012

As we approach the 1 January deadline for an agreement on reducing the government's deficit, there are few clear signs of progress between Republicans and Democrats in the US. Comments made by Senator Harry Reid of Nevada late on Tuesday appeared to drag the US market down, whilst Erskine Bowles, Democrat co-chair for President Obama's 2010 Commission on Fiscal Responsibility, was equally downbeat in his assessment of the progress made thus far. Republican Speaker, John Boehner, lifted sentiment on Wednesday, however, by saying that he remained "optimistic" that an agreement would be reached in time.

Global equities ground higher over the week, led by Asia Pacific excluding Japan (1.9%) and Continental Europe (1.0%). China's stock market has underperformed most other markets so far in 2012, with the Shanghai Composite index closing below 2,000 on Tuesday for the first time since January 2009. Property securities rose by 0.7% over the week, whilst commodities added 0.5%. Government bonds also enjoyed modest gains, as the yield on the US 10 year Treasury fell by 5 basis points to 1.6%. Investment grade credit has performed strongly so far this year, with gains of 0.4% in the US and 0.6% in the UK. November was the second busiest month on record for US high grade corporate debt issuance, according to the International Financing Review (IFR). Some USD 120 billion worth of new bonds were issued by companies including General Electric and Chevron last month.

The US Congressional Budget Office (CBO), set up in July 1974, expects government borrowing to reach the debt ceiling in mid February or early March. In the absence of new legislation, automatic spending cuts will come into effect on 2 January. These measures are expected to reduce total spending in the economy by approximately USD 650 billion next year, or circa 4% of GDP. Failure to avert the fiscal cliff is expected to add somewhere between 4 and 7% to the average tax rate, and to cut 3% from real GDP. Participants of the Wall Street Journal's CEO Council, who together head companies responsible for USD 2 trillion in annual sales, foresee only a one-in-three chance of a budget deal being agreed in Congress before the end of the year. Morgan Stanley CEO James Gorman responded to the growing risk of an impasse by encouraging staff at the bank's US offices to contact their members of Congress to press for a deal over the fiscal cliff.

Europe has taken a backseat at present, as the political drama in the US continues. Greece's sponsors agreed several new measures to support the country last week, including (i) restructuring the maturities and interest rates on Greece's existing loans; (ii) returning profits from the European Central Bank's Securities and Market Programme (SMP); and (iii) a debt buyback. Interest rates on Greece's first bailout loan will be reduced by 1% to 0.5% above interbank rates, whilst interest payments on Greece's second programme will be deferred for 10 years, with maturities pushed back by 15 years. Meanwhile, Greece's target debt-to-GDP ratio has been allowed to drift up to 124% by 2020. The changes to the terms of Greece's bailout will require the approval of national parliaments. Elsewhere in Europe, Standard & Poor's downgraded Hungary to BB on 23 November, highlighting the government's "unorthodox" monetary policy, including new taxes and the nationalisation of a number of key industries. The new reforms have been implemented under the banner of "more proportionate burden sharing", a slogan which may prove attractive for other cash-strapped European governments.

Finally in Japan, the government approved an additional JPY 880 billion of stimulus measures on Friday. The measures are expected to add 0.2% to real GDP next year, whilst creating jobs for around 80,000 people, according to the Cabinet Office. Consumer prices in Japan fell by 0.4% year-on-year in October, in line with economists' expectations.

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

Returns to 30 November 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 30 November 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	**USD**	0.5%	0.5%	14.2%
United Kingdom	FTSE All Share TR	**GBP**	0.9%	1.8%	11.2%
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.0%	2.9%	17.3%
Japan	Topix TR	**JPY**	0.7%*	5.3%	9.7%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	1.9%	1.7%	21.7%
Global	MSCI World NR	**USD**	0.8%	1.3%	13.7%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	0.8%	0.5%	16.8%
Emerging Asia	MSCI EM Asia NR	**USD**	2.0%	2.8%	16.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-0.6%	-1.6%	2.1%
BRICs	MSCI BRIC NR	**USD**	0.9%	0.6%	9.1%
South Africa	FTSE JSE All Share TR	**USD**	0.6%	0.5%	11.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	1.1%	1.3%	12.7%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.4%	0.6%	2.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.9%	0.5%	8.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.4%	-0.2%	9.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.8%	0.8%	14.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.6%	0.8%	3.1%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.6%	1.3%	13.2%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.9%	1.5%	9.8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.3%	0.9%	12.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	0.7%	1.9%	24.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2%	0.3%	2.1%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.7%	0.0%	6.0%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.5%	-0.1%	2.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.5%	0.0%	4.4%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	0.4%	0.9%	11.2%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.0%*	1.7%	17.0%

Source: Lipper Hindsight, November 2012.

Returns to 30 November 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 30 November 2012	Currency returns: Month to date	Currency returns: YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	0.2%	-0.5%	12.5%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.6%	1.4%	27.0%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	4.0%	2.1%	25.4%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-0.3%	-1.4%	29.1%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	0.4%	2.6%	39.2%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	0.7%	1.0%	23.9%
Currencies					
Euro		**USD**	0.4%	0.4%	0.2%
UK Pound Sterling		**USD**	0.1%	-0.5%	3.1%
Japanese Yen		**USD**	-0.1%	-3.1%	-6.7%
Australian Dollar		**USD**	-0.1%	0.6%	1.8%
South African Rand		**USD**	-0.1%	-2.1%	-9.1%
Swiss Franc		**USD**	0.4%	0.5%	0.9%
Chinese Yuan		**USD**	0.0%	0.2%	1.1%
Commodities & Alternatives					
Commodities	RICI TR	**USD**	0.5%	1.8%	2.9%
Agricultural Commodities	RICI Agriculture TR	**USD**	0.9%	-0.9%	5.0%
Oil	ICE Crude Oil CR	**USD**	0.2%	1.3%	3.0%
Gold	Gold Index	**USD**	0.1%*	0.4%	12.7%
Hedge Funds	HFRX Global Hedge Fund	**USD**	-2.2%	-2.1%	0.0%

* *Estimate*

Source: Lipper Hindsight, November 2012.

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