Weekly Review

Week ending 4th January 2013

In the three weeks since the last weekly review US equities added 3.8%, US high yield debt rose by 0.9% (with nominal yields falling to all time lows), whilst the yield on the 10 year treasury has risen above 1.9% for the first time since May last year. As such, this has been a positive period for higher beta investments such as equities, with the majority of gains being earned at the start of last week.

The US was the main catalyst for markets last week, as politicians came together in an 11th hour agreement to avert the looming ‘fiscal cliff’. After several days of negotiations between President Barack Obama, Vice President Joe Biden and Senate leaders Eric Cantor and Mitch McConnell, new legislation was agreed in the early hours of 1 January to raise the tax rate on individuals earning in excess of USD 400,000, and married couples with combined earnings of over USD 450,000. The deal does little to alter the current trajectory of US public debt, which is on course to hit the revised debt ceiling at the end of February. The Republican-controlled House of Representatives upheld the bill by 257 votes to 167, although a majority of Republicans voted against the bill.

Equity markets pushed ahead as lingering doubts over a negative shock to investor sentiment were eased by the last minute agreement in the US. The S&P 500 index rallied by 2.5% on the first day of 2013, its best start to a calendar year since 2009. Markets pulled back slightly after the minutes of the Federal Open Market Committee’s (FOMC) latest meeting showed a split amongst members on the question of whether or not quantitative easing should continue until the end of 2013. With several members making it clear that they consider an earlier exit appropriate in order to maintain financial stability, the S&P 500 index closed down by -0.2% on Thursday. Nonetheless, the market rebounded to end the week up by 4.6% (on a total return basis), helped by positive payrolls figures (the ADP’s monthly employment report revealed the biggest monthly increase in nonfarm payrolls since February 2012, with 215,000 new jobs created during December).

Continental European equities ended the week up by 3.1% in euro terms, despite disappointing data from manufacturers. The Eurozone aggregate manufacturing PMI declined by 1.1 points to 46.1 in December, indicating a faster pace of contraction in announced activity levels by companies. British manufacturers bucked the trend, with output expanding at its fastest rate in 15 months in December to a nine month high of 51.4, prompting the FTSE 100 index of leading shares to break through 6,000 points on Wednesday for the first time since July 2011.

In Asia, Japan continued to rally into the new year. The Topix index has added 4.8% since Prime Minister Shinzo Abe took office on 26 December. Mr. Abe’s continued pressure on the bank of Japan to increase quantitative easing in order to stimulate the economy prompted the Japanese yen to fall to a 29 month low against the US dollar on Friday, at 88.2 yen per US dollar. In China, HSBC’s unofficial PMI for the manufacturing sector rose by one point to 51.5 in December, helped by an increase in infrastructure spending in the fourth quarter.

Global equities, led by strong performance of the US market, ended the week up by 3.3%, their best one week performance since November 2012. Emerging markets lagged their developed counterparts, whilst nonetheless up by 2.2%. US treasuries declined by 1.0%, with 10 year government bond yields breaking from their five month trading range of between 1.48% and 1.87%, as yields rose above 1.9%. Credit outperformed government bonds, despite being moderately down, to leave high yield and emerging market debt as the best performing areas of the fixed income markets. Global property securities added 1.7%, again led by the US, whilst the broad commodities index declined by 0.1%, despite crude oil futures rallying by over 2% on the IntercontinenalExchange (ICE).

Source: Bloomberg. Returns in US dollars unless otherwise stated. January 2013

Returns to 4 January 2013

Asset Class/Region	Index	Currency	Currency returns: Week ending 4 January 2013	December 2012	2012
Developed Market Equities					
United States	S&P 500 NR	**USD**	4.6%	0.8%	15.2%
United Kingdom	FTSE All Share TR	**GBP**	2.8%	1.0%	12.3%
Continental Europe	MSCI Europe ex UK NR	**EUR**	3.1%	1.8%	19.4%
Japan	Topix TR	**JPY**	3.3%	10.1%*	20.9%*
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	1.7%	2.5%	24.7%
Global	MSCI World NR	**USD**	3.3%	1.9%	15.8%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	0.5%	6.4%	24.3%
Emerging Asia	MSCI EM Asia NR	**USD**	2.3%	3.5%	20.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	3.2%	6.5%	8.7%
BRICs	MSCI BRIC NR	**USD**	3.1%	5.0%	14.5%
South Africa	FTSE JSE All Share TR	**USD**	1.3%	8.5%	21.0%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	2.2%	4.9%	18.2%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-1.0%	-0.5%	2.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-1.4%	-0.7%	7.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.7%	-0.1%	9.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.7%	1.6%	15.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-2.3%	-0.5%	2.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-1.3%	0.1%	13.3%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.4%	0.8%	10.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.4%	1.0%	13.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	-0.3%	3.7%	29.4%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.2%	-0.3%	1.8%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.5%	-0.2%	5.7%
Global Government Bonds	JP Morgan Global GBI	**USD**	-1.7%	-1.0%	1.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-1.3%	-0.2%	4.1%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	1.4%	1.9%	13.3%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.3%	0.9%	18.0%

Source: Bloomberg, January 2013

Returns to 4 January 2013

Asset Class/Region	Index	Currency	Currency returns: Week ending 4 January 2013	Currency returns: December 2012	Currency returns: 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	2.8%	3.5%	16.5%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.0%	2.3%	29.9%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.3%	0.4%	25.9%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-0.5%	2.4%	32.2%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	1.1%	4.5%	45.5%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	1.7%	3.8%	28.7%
Currencies					
Euro		**USD**	-1.1%	1.6%	1.8%
UK Pound Sterling		**USD**	-0.5%	1.5%	4.6%
Japanese Yen		**USD**	-2.6%	-4.9%	-11.3%
Australian Dollar		**USD**	1.0%	-0.3%	1.8%
South African Rand		**USD**	-1.0%	5.1%	-4.5%
Swiss Franc		**USD**	-1.2%	1.4%	2.6%
Chinese Yuan		**USD**	0.1%	-0.1%	1.1%
Commodities & Alternatives					
Commodities	RICI TR	**USD**	-0.1%	-0.9%	2.0%
Agricultural Commodities	RICI Agriculture TR	**USD**	-2.0%	-3.0%	1.8%
Oil	ICE Crude Oil CR	**USD**	2.2%	-0.2%	2.8%
Gold	Gold Index	**USD**	0.0%	-2.3%	7.1%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.9%*	0.9%	3.5%

* *Estimate*

Source: Bloomberg, January 2013

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