momentum

weekly review

Week ending 27 January 2012

global investment management

Global equities rose by 1.2% last week, to bring month to date returns to 5.8% as of Friday's close. Emerging markets rallied more than their developed counterparts, up 2.0%, with stocks in emerging Europe adding 5.2% in US dollar terms. The Sensex index added 3.0% over the week in local currency terms, after India's central bank cut the reserve requirement ratio for the country's banks by 50 basis points to 5.5%, the first time the central bank has acted to ease capital restrictions since 2009. Last week's positive mood was seemingly dented by Friday's US GDP disappointment, which showed that the US economy grew by an annualised rate of 2.8% in the final three months of 2011, versus consensus forecasts for growth of 3.0%.

Global government bonds added 0.8% last week, with US Treasuries posting gains of 0.5%. We remain cautious on the outlook for core developed market government debt, and the risk posed by new regulation. According to Ian Stewart, Deloitte's Chief Economist in the UK, the term 'financial repression' has appeared in the press more than 500 times in the past six months – ten times as many references as during the whole of 2007. Financial repression in the broad sense refers to government regulation targeted at investors; currently fears are that new legislation may be used to help ameliorate government funding pressures. For example, Hungary has recently nationalised its private pension funds, switching plan holders' capital into government bonds.

The World Bank has cut its global growth forecast for 2012 to 2.5% from 3.6% in June, whilst similarly lowering its forecast for 2013 by 0.5% to 3.1%. Statistics from the International Labour Organisation show a jobs shortfall of nearly 200 million jobs worldwide. The global economy needs to create 40 million jobs each year over the next decade in order to absorb the estimated rise in the labour force.

On Wednesday evening the Federal Open Market Committee (FOMC) announced that rates would remain low "at least through late 2014". As part of efforts to increase the transparency of FOMC communications, the Fed unveiled a 'soft' inflation target of 2.0%. This target is not currently embedded in the Federal Reserve's official mandate, unlike in inflation-targeting countries such as the UK and the Eurozone.

In company news, Apple roundly trumped analysts' expectations with its latest results, announcing quarterly earnings per share and revenue of USD 13.87 and USD 46.3 billion, compared with consensus forecasts of USD 10.14 and USD 39 billion respectively. Apple's cash reserves of USD 97.6 billion are sufficient to buy any of the companies in the S&P 500, barring the seven other largest names by market capitalisation.

The Spanish central bank successfully issued three and six month bills with an average yield of 1.3% and 1.8%, down from 1.7% and 2.4% respectively in December. This despite latest data from Eurostat, the European Union's statistics office, showing that nearly a third of the euro region's unemployed now reside in Spain. The country's new conservative government is set to unveil sweeping reforms of its labour laws, which are blamed in part for the country's economic malaise. Portugal's borrowing costs reached new highs last week, with the three year bond yield rising above 21.0% on Friday.

Source: Momentum Global Investment Management Limited / Bloomberg. January 2012.

No agreement has been reached as yet on the extent of public versus private sector involvement in Greece's debt restructuring. Private bondholders are reported to be willing to accept maximum losses in the region of 65-70%, an offer that was rejected by finance ministers on Monday evening. There is mounting pressure on institutions such as the European Central Bank to bear some of the losses in Greece. The latest analysis from the International Monetary Fund has concluded that Greece's EUR 130 billion bailout plan, devised in October, will only bring the country's debt-to-GDP ratio down to approximately 130% by 2020, as opposed to 120% previously forecast.

Elsewhere, commodities added 2.7% during the week, with gold rising by 4.4%. EU foreign ministers agreed a ban on oil imports from Iran on Monday evening, to be phased in over the next five months. According to the IMF, an embargo on Iranian oil is likely to push the price of alternative supplies up by between 20 and 30 dollars per barrel.

Source: Momentum Global Investment Management Limited / Bloomberg. January 2012.

			Currency returns		
Asset class/region	Index	Currency	Week ending 27 January	Last month	YTD 2012
Developed markets equities					
United States	S&P 500 NR	USD	0.1	1.0	4.8
United Kingdom	FTSE All Share TR	GBP	0.2	0.8	3.6
Continental Europe	MSCI Europe ex UK NR	EUR	1.1	1.2	6.2
Japan	Topix TR	JPY	0.8	0.1	4.5
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	2.7	-0.9	10.0
Global	MSCI World NR	USD	1.2	-0.1	5.8
Emerging markets equities					
Emerging Europe	MSCI EM Europe NR	USD	5.2	-9.7	14.9
Emerging Asia	MSCI EM Asia NR	USD	1.4	0.7	9.6
Emerging Latin America	MSCI EM Latin America NR	USD	2.0	-1.6	13.2
BRICs	MSCI BRIC NR	USD	2.6	-2.2	14.4
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	2.0	-1.2	10.8
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.5	1.0	-0.2
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.3	0.1	1.6
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.2	2.1	1.6
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.1	2.7	2.9
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.0	2.0	-0.8
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.6	2.1	1.0
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.2	4.0	1.6
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.2	2.6	2.5
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	2.0	2.9	6.1
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0	0.7	0.0
Australian Government	JP Morgan Australia GBI TR	AUD	-0.7	0.9	-1.2
Global Government Bonds	JP Morgan Global GBI	USD	0.8	1.0	0.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.2	0.6	1.2
Global Convertible Bonds	UBS Global Convertible Bond	USD	1.5	-0.7	5.7
Emerging Market Bonds	JP Morgan EMBI+	USD	0.9	1.3	1.1

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

			Currency returns		
Asset class/region	Index	Currency	Week ending 27 January	Last month	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	3.0	4.5	6.6
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.4	-5.1	7.2
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.0	0.5	4.6
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	0.9	-2.6	6.1
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.9	-1.9	12.3
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	2.5	0.9	8.5
Currencies					
Euro		USD	1.6	-3.6	1.2
UK Pound Sterling		USD	0.9	-1.2	0.8
Japanese Yen		USD	0.5	0.9	0.3
Australian Dollar		USD	1.7	-0.2	3.7
South African Rand		USD	2.3	0.3	3.8
Swiss Franc		USD	1.7	-2.7	1.8
Chinese Yuan		USD	0.0	1.3	-0.7
Commodities					
Commodities	RICI TR	USD	2.7	-1.8	4.6
Agricultural Commodities	RICI Agriculture TR	USD	2.1	2.5	2.1
Oil	ICE Crude Oil CR	USD	-1.4	-2.5	2.1
Gold	Gold Index	USD	4.4	-12.3	12.7

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

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