www.ppi-advisory.com | Vol. 66 | **April 2012**

VIEWPOINT

Newsflash

A new month and the 66th issue of Viewpoint from PPi.

This document will be made available on our website www.ppi-advisory.com

Table of Contents

Asset allocators continue to debate the merits of equities versus fixed income securities. Whilst core developed market government bonds have enjoyed a multi decade bull run, which has greatly enhanced their risk-return profile, equities have appeared to lurch from boom to bust. In 2011, global equities declined by 5.5%, with monthly returns rangeing between -8.6% and +10.3%, whilst bonds smoothly earned a return of 7.2% for the year. To date in 2012, however, equities are in the ascendance, whilst bonds have lost ground. Global equities rose by 1.3% in March, buoyed by strong positive returns in the second week of the month. Within this headline return, shares in the US and Japan rallied by over 3% in local currency terms, whilst the UK and mainland Asia recorded losses. Global government bonds mirrored their return in February with falls of 1.1%, to leave investors in negative territory for the year. In January global developed equities outperformed global government debt by 3.7%, with this performance differential widening to 6.0% in February, before narrowing last month to 2.4%.

Beginning on the 19th of December, global equities have moved steadily higher over the course of the first quarter of 2012. This momentum appeared to slow last month, however. Indeed, since closing above 1,400 points on 15 March, the S&P 500 has traded within a narrow band of between 1,417 and 1,393 points, as if investors have become anchored to this symbolic threshold.

Stock markets incorporate far more information than simple threshold levels, however, and the underlying data has equally slowed to arrest the progress of equity markets, at least in the short term.

The US has been the focus of the recent improvement in economic data. Positive sentiment was enforced by the final reading of US fourth quarter GDP, which left output growth unchanged at 3.0% (annualised) quarter-on-quarter, the strongest rate of output growth since June 2010. Commentators have highlighted a number of data disappointments in March, namely with regards to regional manufacturing surveys in the US. Regional surveys of announced activity levels by companies fell below economists' forecasts in March, having roundly trumped expectations the previous month. Post the quarter end, however, the ISM Manufacturing index, the largest forward-looking survey of activity, beat expectations, rising to 53.4 from 52.4 the previous month. Indeed, the balance of positive surprises to negative ones, as aggregated by Citigroup's Economic Surprise index, remains positive, despite trending downwards in 2012. By the end of the month, the index stood a little above zero, indicating that either expectations are now appropriately set or a portion of the data has indeed softened.

Confidence is a key determinant of final demand, and hence the improvement in US sentiment may support output growth going forwards. Whilst still some way below its pre-crisis norm, confidence has nonetheless shown a significant improvement since October last year. The US Conference Board's Consumer Confidence index exceeded expectations for the second month in a row in March at 70.2, with consumers' assessment of current conditions at its highest level in three and a half years. The University of Michigan's survey has equally consistently ticked upwards since August 2011, reaching a 13 month high in March. Confidence has also shown signs of improvement in Europe. German business confidence rose to an eight month high in March, according to the Ifo Institute's Business Climate index. Italian consumer confidence similarly exceeded economists' forecasts in March, at 96.8 versus 93.5 expected, whilst French consumer confidence rose by the most in almost five years. Sentiment was given a timely boost on the last business day of the month, as EU finance ministers added EUR 200 billion to the region's existing bailout facilities.

Greece's debt restructuring in March marked the first such event in an advanced economy in over 60 years. The exchange, and subsequent arbitration process involving credit derivatives was completed without major incident. Sellers of Credit Default Swaps (derivatives contracts designed to protect against the risk of default by bond issuers) face a bill of around USD 2.5 billion on Greek government bonds, after the final price of the nation's outstanding obligations was agreed at 21.5% of face value. Banks that have sold CDS contracts are obliged to redeem the bonds at face value from current holders, thereby covering the 78.5% shortfall. Both the International Monetary Fund (IMF) and ratings agency Standard & Poor's have questioned the viability of Greece's restructuring, raising the prospect of further intervention in the future. Data from purchasing managers in both Europe's services and manufacturing sectors disappointed economists' forecasts in March, with Germany's Manufacturing index dipping below par at 50, indicating a drop in announced activity levels by survey respondents. To put this latest reading into context, the series fell as low as 32 in January 2009.

Credit followed government bonds down over the month, whilst a degree of spread compression helped insulate returns for corporate bond holders. The Citigroup World Broad Investment Grade index fell by 0.6% in March in US dollar terms, compared to returns of -1.1% for government bonds. In Europe, corporate debt added 0.9% in euro terms, whilst high yield rallied by 1.3%. Both corporations and governments have taken the opportunity provided by current low interest rates to increase their issuance of debt. The UK treasury announced plans during the quarter to consider issuing bonds with a tenor of 100 years, or even in perpetuity, in order to add a low interest rate component into their debt capital structure.

Source: Momentum Global Investment Management / Bloomberg/ March 2012

Against this background of moderating economic data balanced against improved confidence, there are several key issues for investors to focus on. In Europe, investors' attention has shifted away from Greece towards Iberian neighbours Portugal and Spain. Portuguese 10 year government bond yields have been above 10% for the past nine months, implying a lack of faith in Lisbon's creditworthiness, even though the country has sufficient funds to meet its obligations until 2013 (by virtue of its bailout from the EU and the IMF). In Spain, banks' 'bad loans' as a proportion of total lending have reached their highest level since 1994, according to the central bank, as record unemployment pushes borrowers into arrears. Central bank officials dealt a blow to the government by confirming that the economy is likely to have entered a new recessionary phase in the first quarter of 2012, with the government already committing to swingeing spending cuts in order to meet its deficit targets.

Authorities in China have cut the country's growth target to 7.5%, down from 8% between 2005 and 2011. China's official Purchasing Managers' index registered 53.1 in March, versus 50.8 expected; HSBC's index, which, amongst other differences from the official series, takes into account seasonal variations in activity, fell to 48.3 in March from 49.6 in February. Beijing acted to ease lending conditions in rural areas during March, by reducing the reserve requirement ratio for specific branches of the Agricultural Bank of China Ltd. Moderating inflation may leave authorities with room to loosen monetary policy.

Global property securities added 1.2% in March. Real estate is one of the main components of household and corporate balance sheets and the weakness of this area of the market has acted as a meaningful headwind to the global recovery post 2008. As such, the outlook for property markets in major regions remains of keen interest to investors. Confidence amongst US homebuilders remained steady in March at its highest level since June 2007, whilst sales expectations climbed for the sixth consecutive month. The mood was tempered as month-on-month new home sales growth disappointed forecasters.

Commodities fell by 2.6% in March according to the Roger's International Commodity index. Beijing increased fuel prices towards the end of the month, with prices for petrol and diesel rising by 7% and 7.8% respectively. The news depressed investors' outlook for Chinese growth, in turn putting pressure on some commodities markets.

Source: Momentum Global Investment Management / Bloomberg / March 2012

Asset Class Performances

Asset Class/Region	Index	Currency	Month	Year to date
		To 30 March 2012		
Developed Markets Equities				
United States	S&P 500 NR	USD	3.2	12.4
United Kingdom	FTSE All Share TR	GBP	-0.9	6.1
Continental Europe	MSCI Europe ex UK NR	EUR	0.2	9.5
Japan	Topix TR	JPY	3.3	18.5
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	-2.8	11.3
Global	MSCI World NR	USD	1.3	11.6
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	USD	-4.3	19.3
Emerging Asia	MSCI EM Asia NR	USD	-3.2	13.3
Emerging Latin America	MSCI EM Latin America NR	USD	-3.2	14.6
BRICs	MSCI BRIC NR	USD	-6.3	13.8
Global Emerging Market	MSCI EM (Emerging Markets) NR	USD	-3.3	14.1
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-1.0	-1.3
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.1	0.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.0	2.1
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.1	5.3
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.8	-2.0
UK Corporate (Investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.0	2.8
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2	3.5
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.9	5.7
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.3	12.7
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1	0.3
Australian Government	JP Morgan Australia GBI TR	AUD	0.5	-0.5
Global Government Bonds	JP Morgan Global GBI	USD	-1.1	-0.9
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.6	0.9
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.2	8.7
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.2	4.0

Source: Momentum Global Investment Management Limited / Bloomberg / Lipper Hindsight. March 2012

		To 30 March 2012		
Asset Class/Region	**Index**	**Currency**	**Month**	**Year to date**
Property				
US Property Securities	MSCI US REIT TR	USD	5.0	10.4
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	3.5	10.5
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	4.9	9.5
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-0.6	7.3
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-4.7	16.5
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	1.2	12.9
Currencies				
Euro		USD	-0.5	2.6
UK Pound Sterling		USD	0.0	2.8
Japanese Yen		USD	-1.6	-6.5
Australian Dollar		USD	-4.1	1.0
South African Rand		USD	-2.9	5.2
Commodities				
Commodities	RICI TR	USD	-2.6	5.2
Agricultural Commodities	RICI Agriculture TR	USD	-0.8	1.9
Oil	ICE Crude Oil CR	USD	0.4	14.9
Gold	Gold index	USD	-6.1	8.6
Hedge Funds	HFRX Global Hedge Fund	USD	0.0	3.1
Interest Rates			**Current rate**	**Change at meeting**
United States	13 March 2012	USD	0.25%	-
United Kingdom	5 April 2012	GBP	0.50%	-
Eurozone	4 April 2012	EUR	1.00%	-
Japan	9 April 2012	JPY	0.10%	-
Australia	3 April 2012	AUD	4.25%	-
South Africa	29 March 2012	ZAR	5.50%	-

Momentum Global Investment Management / Bloomberg / Lipper Hindsight. March 2012

Click here for:

Disclaimer:

Simply click on the link of the company that you are interested in. By clicking on any external links provided on this website, you will leave the PPi site and be re-directed to an external organisation's website.

As PPi is not responsible for any content or activities associated with any external website accessed by hypertext links appearing on this website, and as such content has been independently developed by third parties and is outside of our control and subject to change without notice, PPi hereby disclaims any representations, warranties, or guarantees made on external websites.

Further, PPi does not guarantee the correctness or suitability of such information or of any other linked information presented, referenced, or implied. Any hyperlink from this website leading to another website should not be interpreted as an endorsement by PPi of that website, its organisation, or of its products or services.

PPi does not accept responsibility for any loss, harm, or damage, however caused, for information by third party organisations with links appearing on this website. Clicking on any of the following external links constitutes a signature of your consent to the above disclaimer. If you disagree with all, or part of this disclaimer, use of the external links provided below is strictly prohibited.

Momentum Global Investment Management is the trading name for Momentum Global Investment Management Limited. This document does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this document, and should be satisfied in doing so that there is no breach of local legislation or regulation. The information is intended solely for use by our clients or prospective clients, and should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should inform themselves and if need be take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this material is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated herein. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum Global Investment Management does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

We caution that the value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Our investment mandates in alternative strategies and hedge funds permit us to invest in unregulated funds that may be highly volatile. Although alternative strategies funds will seek to follow a wide diversification policy, these funds may be subject to sudden and/or large falls in value. The illiquid nature of the underlying funds is such that alternative strategies funds deal infrequently and require longer notice periods for redemptions. These Investments are therefore not readily realisable. If an alternative strategies fund fails to perform, it may not be possible to realise the investment without further loss in value. These unregulated funds may engage in the short selling of securities or may use a greater degree of gearing than is permitted for regulated funds (including the ability to borrow for a leverage strategy). A relatively small price movement may result in a disproportionately large movement in the investment value. The purpose of gearing is to achieve higher returns associated with larger investment exposures, but has concomitant exposure to loss if positive performance is not achieved. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund's infrequent valuation points).

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management Limited (Company Registration No. 3733094) and has its registered office at 20 Gracechurch Street, London, EC3V 0BG.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Services Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.