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VIEWPOINT

Newsflash

A new month and the 74th issue of Viewpoint from PPi.

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November was very much a month of two halves for global equities. The first couple of weeks saw markets fall by close to five percent, but the subsequent rally was sufficient to lift the global composite into positive territory for the month, up by 1.3% in US dollar terms. Japan led the way from other markets, with gains of 5.3% in local currency terms. Despite its recent outperformance, Japan and the UK appear as the clear laggards amongst the set of developed markets year to date in 2012. Emerging markets performed in line with their developed counterparts over the period, led by stocks in emerging Asia (2.8%), whilst Latin America underperformed other regions (-1.6%). With one month to go in 2012, few would have foreseen the types of returns delivered by many asset classes thus far, with most equity markets recording double digit returns, alongside strong gains for credit and high yield bonds. Returns have been set against a relatively benign inflation backdrop, with expectations for price growth going forwards still relatively well-anchored, despite the extraordinary levels of central bank money printing.

Politics took centre stage last month, beginning with the US elections on 6 November. Polls leading up to the event put President Obama ahead in the key ‘swing’ states, and in the end he claimed a comfortable victory over Republican challenger Mitt Romney. Democrat presidencies are generally considered to be less ‘business friendly’, and markets duly opened down the day after the elections, with the S&P 500 index falling by 2.4%.

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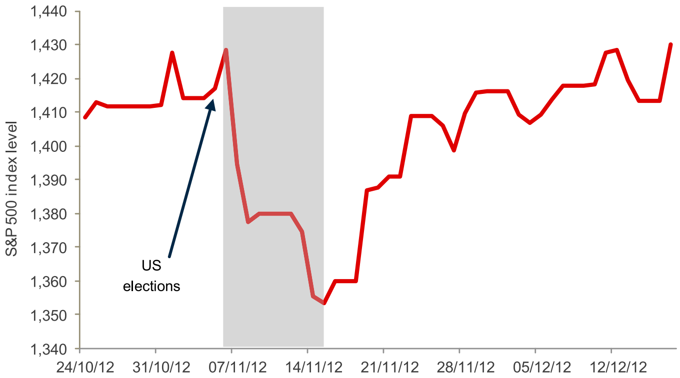
Figure 1: Market's react negatively to news of Obama's victory in the US

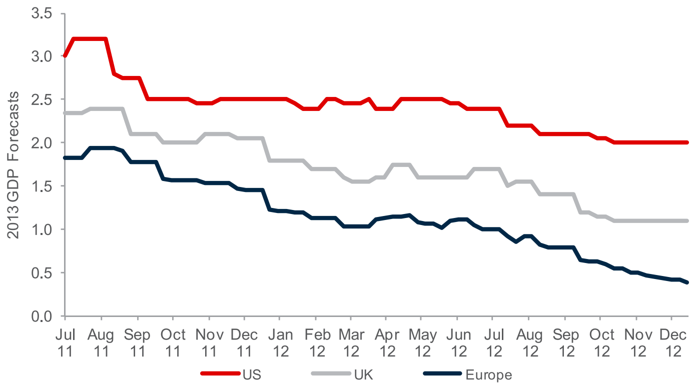


Attention has subsequently shifted to US fiscal policy, with time running out for a last minute deal to avert the 'fiscal cliff'. The term, coined by Federal Reserve Chairman Ben Bernanke back in February, refers to automatic measures to reduce the government's budget deficit that were made legally-binding under the Budget Control Act of 2011. US lawmakers are now seeking to agree new legislation to reduce the impact of these automatic measures, which threaten to cut circa 4% from US GDP next year.

On the data front, the latest releases from the US continue to be distorted by last month's tropical storm Sandy, which makes gauging the current health of the economy difficult. Post the end of the month, the Institute for Supply Management's survey showed the US manufacturing sector dipping once more into contractionary territory, whilst global measures of activity remain depressed. Better fundamental data will no doubt be needed as markets progress through the first half of 2013, if the current level of asset prices is to be supported.

Downgrades to economic data, rather than upgrades, remain the order of the day at present. Looking at the path of growth expectations for the current year, it is clear that forecasters got ahead of themselves at the start of 2012. Whilst starting from a lower base leaves less room for disappointment going forwards, this is not necessarily a reliable signal for asset prices in 2013.

Figure 2: GDP expectations in the US, the UK and Europe



In Japan, Sunday's elections saw the Liberal Democratic Party (LDP) clinch an easy victory over the Democratic Party (DPJ), with 294 seats out of 480 seats in the Diet's lower house. The appointment of Prime Minister Shinzo Abe has helped lift sentiment in the region and has seen Japanese equities outperform other markets in recent months, returning 5.8% in yen terms.

In Europe, fears over a possible "Grexit" have eased, after EU finance ministers agreed to restructure Greece's repayments. The government has been given more time to repay its debts, whilst the interest rates on loans have been cut. Greece's target debt-to-GDP ratio has also been allowed to drift up to 124% by 2020, as opposed to the earlier figure of 120%. Greece saw its credit rating cut from CCC to SD (Selective Default) by Standard & Poor's, after the ratings agency adjudged the government's plans to buy back its debt as being a distressed restructuring. Moody's downgraded France's rating to Aa1 (outlook negative) during the second half of the month, based on the country's long term growth outlook, its continued loss of competitiveness and uncertainty over the government's fiscal policy. This leaves just nine triple-A rated sovereigns left in Continental Europe according to Moody's – namely Austria, Denmark, Finland, Germany, Luxembourg, the Netherlands, Norway, Sweden and Switzerland. Reflecting on the risk premia attached to countries such as Italy and Spain, it appears investors are happy that the commitments from the ECB are credible and will ensure the survival of the euro project.

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

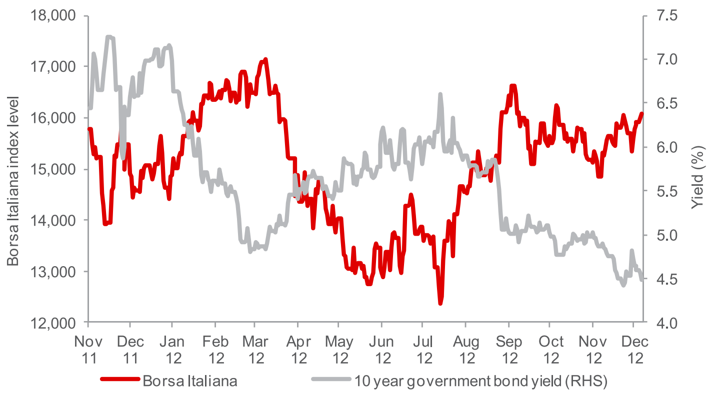
In China, whilst we have a new lineup for the Politburo Standing Committee – the country's executive – other officials still need to be put in place in March, at which point the leadership will outline its key growth and inflation targets. So far, resource pricing reform, interest rate liberalisation, greater exchange rate flexibility and an increase in social spending look set to form at least part of the agenda. China's HSBC Flash Manufacturing Purchasing Managers' index (PMI) rose by 0.9 to 50.4 in November, to record its first 'plus 50' print in 13 months. Chinese equities are now back in line with their level in the middle of 2000, amounting to a fall of circa USD 600 million in the value of China's local stock market.

In his Autumn Statement, British Chancellor George Osborne added another year to his timetable for spending cuts, whilst unveiling lower corporation tax rates, more generous investment allowances for businesses and higher infrastructure spending. Whilst the private sector is expected to take up the slack left by the prolonged 'rolling back' of the state, companies remain reluctant to invest in the current climate. According to the Ernst & Young ITEM Club, investment by British companies will not recover to its pre-crisis levels until at least 2015. Fitch reacted to the government's latest forecasts by announcing that the UK's top rating was under scrutiny. Markets were unmoved by the news, however, with 10 year government bond yields remaining anchored at around 1.8%. Gilt yields have traded between 2.0% and 1.4% for the past six months.

Looking forward, Italy is back at the forefront of investors' minds, after former Prime Minister Silvio Berlusconi announced his plans to run for office once more. Mr. Berlusconi's People of Liberty (PdL) Party have abstained from voting in two recent parliamentary votes, on the grounds that current austerity measures are leading the country to ruin. Mr. Berlusconi stood down on 11 November 2011 amidst widespread criticism from both inside and outside of Italy, to be replaced by an technocratic government led by former European Commissioner

Mario Monti; since then (and with the help of the ECB) Italian government bond yields have fallen by 3.1% and the stock market has rallied by 7.2%. At the same time, unemployment remains stubbornly above 9.2%, whilst GDP is still 5.7% below its end of 2007 peak.

Figure 3: Italian equities and government bond yields post Berlusconi's resignation



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

PPi momentum easton Asset Management

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Asset Class Performances

Asset Class/Region	Index	Currency	Month	Year to date
			To 30 November 2012	
Developed Markets Equities				
United States	S&P 500 NR	USD	0.5%	14.2%
United Kingdom	FTSE All Share TR	GBP	1.8%	11.2%
Continental Europe	MSCI Europe ex UK NR	EUR	2.9%	17.3%
Japan	Topix TR	JPY	5.3%	9.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	1.7%	21.7%
Global	MSCI World NR	USD	1.3%	13.7%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	USD	0.5%	16.8%
Emerging Asia	MSCI EM Asia NR	USD	2.8%	16.8%
Emerging Latin America	MSCI EM Latin America NR	USD	-1.6%	2.1%
BRICs	MSCI BRIC NR	USD	0.6%	9.1%
Global Emerging Market	MSCI EM (Emerging Markets) NR	USD	1.3%	12.7%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.6%	2.7%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.5%	8.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	9.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.8%	14.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.8%	3.1%
UK Corporate (Investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.3%	13.2%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.5%	9.8%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.9%	12.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.9%	24.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3%	2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.0%	6.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.1%	2.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.0%	4.3%
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.9%	11.2%
Emerging Market Bonds	JP Morgan EMBI +	USD	1.7%	17.0%

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

Asset Class/Region	Index	Currency	To 30 November 2012 Month	Year to date
Property				
US Property Securities	MSCI US REIT TR	USD	-0.5%	12.5%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.4%	27.0%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	2.1%	25.4%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-1.4%	29.1%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	2.6%	39.2%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	1.0%	23.9%
Currencies				
Euro		USD	0.4%	0.2%
UK Pound Sterling		USD	-0.5%	3.1%
Japanese Yen		USD	-3.1%	-6.7%
Australian Dollar		USD	0.6%	1.8%
South African Rand		USD	-2.1%	-9.1%
Commodities				
Commodities	RICI TR	USD	1.8%	2.9%
Agricultural Commodities	RICI Agriculture TR	USD	-0.9%	5.0%
Oil	ICE Crude Oil CR	USD	1.3%	3.0%
Gold	Gold index	USD	0.4%	12.7%
Hedge Funds	HFRX Global Hedge Fund	USD	0.4%	2.6%
Interest Rates			**Current rate**	**Change at meeting**
United States	12 December 2012	USD	0.25%	-
United Kingdom	6 December 2012	GBP	0.50%	-
Eurozone	6 December 2012	EUR	0.75%	-
Japan	20 November 2012	JPY	0.10%	-
Australia	4 December 2012	AUD	3.00%	-0.25%
South Africa	22 November 2012	ZAR	5.00%	-

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

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