

# Monthly Update

## July 2011

### Markets Overview

### World Markets

#### Cash

The ECB raised interest rates by a widely anticipated 25bps to 1.50% and used "monitor very closely" language to signal that a further hike is at least two months away, as macroeconomic data generally points towards an easing of economic growth. In the UK, interest rates remained on hold, for the 28th month in a row, with the minutes from the Bank of England's monetary policy committee meeting showing the same split on the decision as the previous month.

In the US, the Federal Reserve has committed to keeping rates exceptionally low through next year. It is unclear if they will re-enter the market with an additional round of quantitative easing should the situation deteriorate further. The effectiveness of the tools left at Chairman Bernanke's disposal is questionable and may very well carry unintended consequences.

#### Bonds

The euro sovereign debt and banking issues have yet to be resolved, with the potential of further defaults driving yields up in the "PIIGS" countries (Portugal, Italy, Ireland, Greece and Spain). The main development in July was the underperformance in Italian and Spanish bonds post the EU-summit relative to Greece, Portugal and Ireland. The 10-year bond spreads (to Bunds) of Italy and Spain have drifted wider following the EU leaders' latest crisis solution. High yield spreads have widened recently compared with investment grade. The month saw S&P and Moody's placing US Treasuries on negative outlook, dependent on the resolution to the debt ceiling. Overall, 10-year treasury bond yields shrank to new lows in the US, UK and the Euro zone. Corporate debt achieved good total returns overall but underperformed the core sovereign market. A preference for lower risk assets was a downward pressure on relative performance and helped push out yield spreads for both investment grade and high yield.

#### Property

There has been little change in both capital growth and income returns over the month. Other parts of the world are becoming increasingly interesting compared to the UK, while Central London retail remains the strongest. Global real estate equity markets had a modest gain in July in the face of some formidable headwinds. US REITs had a total return of 1.5% for the month (FTSE NAREIT Equity REIT Index). Most US property sectors had gains in the month, led by apartment owners. Demand for apartments remained strong, as renting continued to be a favourable option relative to home ownership amid market uncertainty and declining home values. European real estate securities struggled amid renewed fiscal concerns.

Index	Price	Up/Down on month
FTSE 100	5,815.19	↓
DJ Ind. Average	12,143.24	↓
S&P Comp	1,292.28	↓
NASDAQ	2,362.81	↑
Nikkei	9,833.03	↑
£/\$	1.6426	↑
€/£	0.8764	↓
€/\$	1.4398	↓
£Base Rate	0.50%	↔
Brent Crude	116.74	↑
Gold	1,627.88	↑

Prices quoted as at 31/07/11

Source: Bloomberg

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#### Equities

July proved to be a weaker month for equities not helped by the European sovereign volatility, data softness, the political stalemate over the US debt ceiling and concerns about the AAA sovereign rating. On a total return basis, the S&P 500 shed 2.03% in July, extending its May and June losses, as the standoff over the US debt ceiling undermined risk appetite. While the S&P 500 is still 3.87% ahead for the year, the European DJ Stoxx 600 is -1.18% YTD (total return) after having lost 2.69% in July. Worth noting that despite the European Banking Authority stress test (EBA), European banks were more than 6.6% lower in July alone to post the largest three-month cumulative decline since March 2009. Italian and Spanish equity markets also had their worst performances respectively on the back of sovereign contagion worries.

#### Alternative Investments

##### Hedge Funds:

According to Bestinvest (an independent research agency), the worst performing sub index was the HFRX Absolute return, which fell by 1.25% over the month. HFRX Macro (increased by 1.27%) and HFRX Absolute return were the only two indices to diverge by more than 1% from their starting positions over the month, showing a rather flat period for hedge funds collectively.

##### Commodities:

Gold continued to steadily climb over the month, and is now priced above \$1,600 - in July alone the price increased by almost 10%. Following a decrease of 28% from the end of May wheat bounced back, while oil prices remained relatively flat. Natural gas continued to be unpredictable, rising by over 9% although by the end of the month it had declined by 6%.

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