FP FINANCIAL PARTNERS

RMB ASSET MANAGEMENT

Weekly Review

Week ending 27th November 2009

By most accounts last week was going to be a fairly quiet one in the light of Thursday's Thanksgiving holiday in the United States, and it certainly started that way with risky assets gaining ground towards the middle of the week. The market has been aware of the increasing sovereign debt risk of some countries as the premiums on credit default swaps (CDS) for the governments of Greece, Italy, Ireland and Portugal (amongst others) have been increasing steadily over the last couple of weeks. On Thursday it turned out that it's not one of the usual suspects, but rather the United Arab Emirates' Dubai World, that was the first to request some kind of debt restructuring in the form of a six month standstill on its debt. This caused equity and corporate debt markets to sell off on Thursday and Friday, albeit with some moderation towards the close of markets at the end of the week.

Bourses around the world ended the week at close to the same levels where it started, with global equities (as measured by the MSCI World Index) up 0.8%, and the MSCI Emerging Markets index shedding 0.7%. Once again Japan was the laggard by ending 3.3% lower, and despite Yen strength the Topix was down in US Dollar terms as well. Bond indices ended broadly higher as yields on global government bonds continued to edge lower. The JP Morgan Global Government Bond Index gained 1.5% for the week, and the broader Citigroup World BIG moved up 1.2%.

After showing some strength against the other currencies mid week the US Dollar ended the week 2.6% lower against the Japanese Yen and nearly 1% down against the euro. Broad commodities ended the week flat (RICI down -0.1%) but gold continued its strong rally by ending the week around $1177, and seems to be making a strong ascent towards $1200. The price of this precious metal has now increased by more than 13% this month, outperforming most other major asset classes.

Dubai World's debt restructuring caught the market somewhat off guard, but here follows a more careful analysis and our views on the likely market impact. The immediate (over)reaction was for investors to move into safe havens (US Dollars and Treasuries). On closer inspection it seems as if the size of the debt involved is small in relative terms – Dubai World's debt is around $60 billion. This pales in comparison to the estimated $2.8 trillion in recent and forthcoming losses attributable to global financial institutions.

It further seems as if European banks have the largest exposure to Dubai World, which means that a debt restructuring will hit them hardest. It is possible that Dubai may seek help from Abu Dhabi's sovereign wealth fund which has assets in excess of $400 billion, but it's pretty certain that the latter would seek favourable terms in return for such assistance.

The effect of this debt restructuring on global financial markets is most likely an increased sense of nervousness amongst investors holding risk assets, and along with other negative news (such as the sharp spike in Greek sovereign spreads) emphasises the fragility of the worldwide financial system. The market volatility provides an opportunity for hedge fund and absolute return minded investors to take risk off the table and lock in gains towards the end of the year.

Nevertheless, many commentators believe that these negative events will not upset the current cyclical bull market in risk assets. A continuation of monetary stimulating policies, convalescent corporate profitability and a recovery in business activity sets the scene in major global economies, and would probably play a much larger role in the direction of markets than what is probably not much more than a localised shock in Dubai.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. November 2009.

Returns to 27 November

Asset Class/Region	Index	Currency	Week	MTD	YTD
Equities					
United States	S&P 500 NR	**USD**	0.0	5.5	22.8
United Kingdom	FTSE All Share TR	**GBP**	-0.3	4.1	26.0
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.1	2.4	23.1
Japan	Topix TR	**JPY**	-3.3	-9.3	-3.8
Global	MSCI World NR	**USD**	0.8	4.6	28.3
Global emerging markets	MSCI World Emerging markets TR	**USD**	-0.7	4.8	72.6
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.8	1.4	-1.2
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.7	2.6	12.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.8	1.4	19.6
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.3	1.2	54.0
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.3	0.7	1.5
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.3	0.9	12.3
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.2	0.4	4.8
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.2	0.8	15.7
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.6	0.0	72.6
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.3	0.9	0.9
Global Government bonds	JP Morgan Global GBI	**USD**	1.5	2.9	6.9
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.2	2.2	9.8
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.3	3.1	39.2

Source: RMB Asset Management / Bloomberg. November 2009.

Returns to 27 November

Asset Class/Region	Index	Currency	Week	MTD	YTD
Property					
US Property securities	MSCI US REIT TR	**USD**	-2.9	2.5	13.5
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-2.1	0.4	11.5
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-0.8	-1.2	37.7
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-2.4	-4.9	35.6
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-2.3	-1.1	24.2
Currencies					
Euro		**USD**	0.9	1.5	7.8
Sterling		**USD**	-0.1	0.0	14.7
Yen		**USD**	2.6	4.4	4.5
Australian Dollar		**USD**	-0.5	0.6	30.4
Rand		**USD**	2.5	5.6	24.7
Commodities					
Commodities	RICI TR	**USD**	-0.1	3.0	23.8
Agricultural Commodities	RICI Agriculture TR	**USD**	0.6	6.3	6.3
Oil	Brent Crude Index (ICE) CR	**USD**	-1.4	0.3	95.6
Gold	Gold index	**USD**	3.5	13.3	37.0

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. November 2009.

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