Weekly Review

Week ending 5th February 2010

For the week ending 5th February 2010, prices of risk assets continued to come under pressure, as they have done for much of 2010 to date. One of the backdrops for this has been a strong quarterly reporting season in the US and Europe where corporations have generally surprised on the upside with respect to earnings and to a lesser extent on revenues. However, the fear in markets at the moment continues to stem from the precarious fiscal positions of countries on the periphery of the eurozone – most notably Greece and Portugal. Last year's financial crisis has now morphed into growing anxieties over sovereign risk.

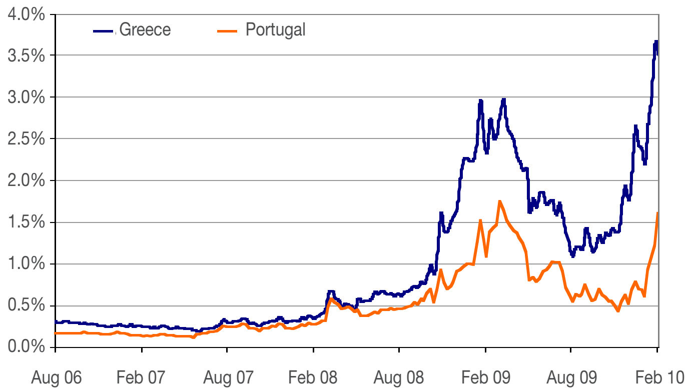

Fig 1: Greece and Portugal 10 year bond spread over German Bunds

Figure 1 shows the spread of 10 year sovereign bond yields for Greece and Portugal over the equivalent German Bund. Yields on Greek bonds have blown out over the past two months and more recently Portugese bonds have made similar albeit smaller moves, indicating the higher yields demanded by investors to compensate for increased default risk. These countries are running significant budget deficits and returning to a sustainable path will require an extended period of austerity – the market is looking for signs that the necessary policy changes will be enacted. Social unrest at proposed spending cuts in Greece is making the situation yet more difficult for policymakers. The crux of the markets' more recent concerns is that these countries may well fail in their bid to reassure markets, and the resulting high borrowing costs could lead these vulnerable nations to default on their debt. All eyes have been on comments coming out of Germany as to whether they would be prepared to step in and bailout these countries in order to protect other members of the eurozone that would otherwise suffer from contagion effects from any potential default or ejection from the eurozone. Other countries such as the United Kingdom suffer from similar problems related to budget defecits and high levels of public debt, but unlike Greece they enjoy the benefits of a flexible currency and control of their own monetary policy.

Unsurprisingly European equities bore the brunt of these concerns last week, underperfoming most other asset classes with a return of -4.2% in local currency terms. All other regional markets also posted declines leading to the MSCI World Index returning -2.1% in US Dollar terms for the week, while the MSCI Global Emerging Markets Index returned -3.8%. Year to date returns for these indices are now well in the red at -6.2% and -9.2% respectively.

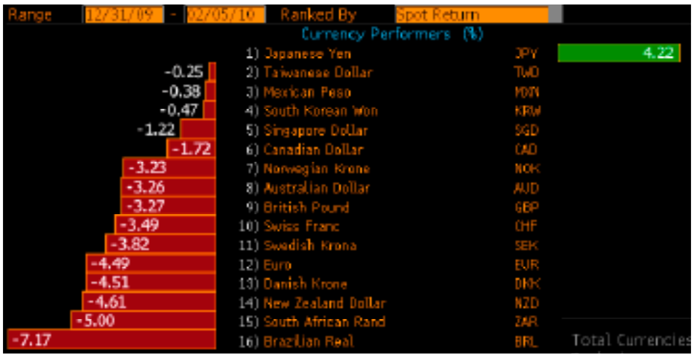

Fig 2: Year to date currency returns versus US Dollar

Despite some bond markets also selling off last week, fixed income securities have provided protection so far in 2010 with small but positive year to date returns almost across the board. Global government bonds are up 0.5% with US Treasuries having appreciated by 2.1%. Japanese government bonds are marginally down for the year but global government bond returns in US Dollar terms have benefited from Yen appreciation of over 4% versus the Greenback. The US Dollar has otherwise strengthened significantly versus other global currencies this year as highlighted in figure 2.

Commodities also delivered negative returns last week, and gold fell -1.9% bringing its year to date decline to -6.0%.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. February 2010.

Returns to 5 February 2010

Asset Class/Region	Index	Currency	Week	2010	12 Months
Equities					
United States	S&P 500 NR	**USD**	-0.7	-4.3	28.1
United Kingdom	FTSE All Share TR	**GBP**	-2.3	-5.8	27.4
Continental Europe	MSCI Europe ex UK NR	**EUR**	-4.2	-7.4	25.0
Japan	Topix TR	**JPY**	-1.0	-1.7	15.5
Australia	S&P/ASX 300 TR	**AUD**	-1.2	-7.3	38.2
Global	MSCI World NR	**USD**	-2.1	-6.2	31.4
Global emerging markets	MSCI World Emerging markets TR	**USD**	-3.8	-9.2	71.0
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.4	2.1	1.5
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.1	1.5	11.4
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.0	1.6	20.4
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.7	0.6	48.7
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.2	0.9	4.5
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.1	2.4	18.4
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.4	0.7	6.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.2	1.9	17.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.2	3.2	65.4
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.2	-0.2	1.5
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.2	1.6	-0.3
Global Government bonds	JP Morgan Global GBI	**USD**	0.0	0.5	6.6
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.2	0.0	9.5
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-0.8	-2.5	38.5
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.7	-0.8	25.9

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. February 2010.

Returns to 5 February 2009

Asset Class/Region	Index	Currency	Week	2010	12 Months
Property					
US Property securities	MSCI US REIT TR	**USD**	-0.3	-5.7	50.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-0.4	-7.4	43.4
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-0.4	-0.4	44.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	0.0	-2.8	29.9
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-2.1	-8.7	50.2
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-1.4	-7.2	46.3
Currencies					
Euro		**USD**	-1.6	-4.7	6.5
Sterling		**USD**	-2.4	-3.1	6.9
Yen		**USD**	1.4	4.2	1.0
Australian Dollar		**USD**	-2.7	-3.8	32.8
Rand		**USD**	-2.2	-4.5	28.0
Commodities					
Commodities	RICI TR	**USD**	-2.5	-10.2	18.9
Agricultural Commodities	RICI Agriculture TR	**USD**	-1.4	-8.9	0.1
Oil	Brent Crude Index (ICE) CR	**USD**	2.2	-5.1	66.0
Gold	Gold index	**USD**	-1.9	-6.0	15.0

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. February 2010.

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