



Weekly Review

Week ending 2nd July 2010

Last week saw the end of the first half of 2010; a six month period which proved to be another rollercoaster ride in markets and indeed the global economy. In short, credit, government bonds and gold proved to be the safe havens during this tumultuous time, with equities and commodities struggling in markets driven by sentiment and policymakers. From a currency point of view the US Dollar and Japanese Yen were the best performers with the euro and Pound Sterling having a very tough time on the back of large fiscal deficits and increasing debt to GDP ratios.

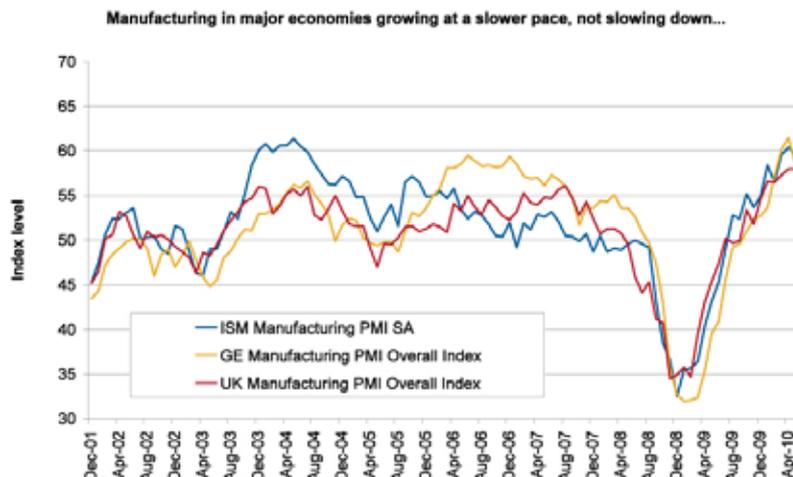
From an investment point of view the big unknown for the year ahead is the influence that authorities will have over the path of the economy and indeed the markets. This is clearly illustrated as market participants eagerly await the results of European banks' stress tests. France's finance minister (Christine Lagarde) was quoted as saying that the stress tests will show European banks are "solid and healthy". The official results are expected to be released on the 23rd of July but some news around the outcome is sure to leak beforehand. As was the case with a similar test applied to US banks in the first quarter of 2009, rigorous test criteria and a workable action plan to assist weaker banks may underpin markets and could be the catalyst for stronger returns in risk assets.

Another topic that is receiving its fair share of attention (and then some) is the likelihood of a double dip recession. With increasing concern about another slowdown in the world economy, investors around the globe fear that the slowdown will lead to a renewed recession (the dreaded 'W' recovery). This is certainly not a fear

that is supported by history – over the last 125 years and 38 previous recessions only three of them could be described as 'double-dip'. This occurs when the initial recession was mild, and is less likely when there is a large output gap in the economy. On this basis, history does not support a renewed recession, and we will only know this for sure at the end of the third quarter. One word of caution though - Japan's banking crisis taught us that economic cycles may prove to be weaker and shorter over the next few years than previously experienced. As one market commentator put it, to be a seller of equities at current levels, you have to back the double-dip thesis.

Amongst some of the bigger producers Germany's industrial companies are frantically rehiring workers and ramping up capacity. In an article published in the FT on Monday German engineering firms are reporting a year on year increase in orders of 61 percent in May. The chart below shows the US, German and UK purchasing manager indices since 2001. Even though these seem to be at turning points, production growth is slowing down, but not contracting (yet).

Moving on to markets, last week saw government bonds once again gaining in the midst of investor concerns about European banks, softer than expected US payroll numbers on Friday and general risk aversion. The US Dollar was weaker against the euro, yen and Sterling, and corporate bonds rallied on the back of falling treasury, gilt and bund yields. Commodities followed equity markets, with gold shedding more than 4% during the week.



Source: RMB Asset Management / Bloomberg / Financial Times / Lipper Hindsight. July 2010.

Returns to 2 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	USD	-5.00	-0.78	-7.66
United Kingdom	FTSE All Share TR	GBP	-3.95	-1.50	-7.56
Continental Europe	MSCI Europe ex UK NR	EUR	-4.12	-2.34	-6.00
Japan	Topix TR	JPY	-4.12	-1.24	-7.52
Australia	S&P/ASX 300 TR	AUD	-3.94	-1.45	-11.39
Global	MSCI World NR	USD	-3.94	-0.44	-10.23
Global emerging markets	MSCI World Emerging markets TR	USD	-3.52	-0.47	-6.61
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.60	-0.11	5.89
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.47	-0.66	3.73
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.71	-0.13	5.65
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.35	-0.08	4.37
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.62	0.21	6.17
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.34	0.12	6.13
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.47	0.28	2.53
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.04	-0.11	3.43
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	-0.39	-0.05	5.44
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.49	0.13	2.38
Australian Government	JP Morgan Australia GBI TR	AUD	0.85	0.06	5.17
Global Government bonds	JP Morgan Global GBI	USD	1.83	1.27	1.65
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.50	1.13	0.28
Global Convertible bonds	UBS Global Convertible Bond	USD	-1.41	0.09	-4.47
Emerging Market Bonds	JP Morgan EMBI +	USD	0.08	-0.15	4.94

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

Returns to 2 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	USD	-7.81	-2.24	2.72
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-3.26	-1.27	-14.42
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-3.64	-2.83	-4.28
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	-1.38	0.24	-2.22
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-2.96	0.08	-7.70
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-4.89	-0.89	-7.16
Currencies					
Euro		USD	2.52	2.88	-12.17
Sterling		USD	1.41	1.52	-5.94
Yen		USD	1.81	0.91	6.16
Australian Dollar		USD	-2.15	0.14	-5.95
Rand		USD	-0.78	-0.61	-4.52
Commodities					
Commodities	RICI TR	USD	-4.29	-1.78	-11.49
Agricultural Commodities	RICI Agriculture TR	USD	1.11	1.46	-10.13
Oil	Brent Crude Index (ICE) CR	USD	-3.83	-3.24	-5.91
Gold	Gold index	USD	-4.18	-3.41	6.80

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