Weekly Review

Week ending 9th July 2010

Although very much in its infancy, the second half of 2010 has started well. Risk assets have rallied and despite the confidence underlying this remaining fragile, a positive result is welcome nonetheless. Last week's news flow was at least 'not negative' and the markets used this opportunity to look past their recent gloom. Overall the week was fairly thin in terms of reported US economic data, but there were pockets of reasonable news from Europe such as the European banks accessing the capital markets in larger volumes than for many weeks and Spain's syndicated debt issuance actually being oversubscribed. Furthermore there seems to be growing confidence with regards to the upcoming European banking stress tests. As the week came to a close Spain clinched the World Cup final beating Holland with a goal in extra time. Even the most ardent football fan must surely be looking forward to at least three and a half years of research reports that try not to make a tenuous link to the World Cup. South Africa's time in the spotlight is coming to a close and it seems to us in London that the country has impressed greatly whilst under the utmost scrutiny from all corners of the globe.

The IMF upgraded its global real GDP growth forecasts for 2010 from 4.2% to 4.6% and the 2011 forecast of 4.3% remains unchanged. This might imply that they believe global growth is peaking for now as governments retract their exceptional policy responses which characterised last year. In the IMF's Global Financial Stability Report it was noted that risks in the financial system remain. The report suggests funding pressures could remain for banks, especially in the eurozone, and that this could accelerate the deleveraging process. The IMF views volatility as a vital factor affecting the economic recovery and financial sector risk. It is likely that policymakers are also keeping a keen eye on volatility as the ongoing recovery relies on relaxing risk aversion leading to rising risk asset prices.

Global equity markets returned 5.3% in US Dollar terms for the week, which bettered the emerging market return of 4.3%. Since the crisis in 2008, the emerging market (EM) equities have outperformed the developed markets (DM). The chart below demonstrates the relative index level of the emerging and developed markets. When the line drops it is due to outperformance of the EM index. In the teeth of the crisis, the DM index outperformed, albeit both markets were falling. The EM index bottomed first and rallied strongly. Early last year the rate of outperformance fell as the developed markets rallied from their nadir in March 2009. For the past year the rate of outperformance from EM equity has been fairly consistent, perhaps reflecting the risk premium that investors should demand over holding developed markets equities. Last week the line moved upwards reflecting DM outperformance. In fixed income markets, global government bonds returned -0.4%, whereas global aggregate fixed income returned -0.1%, due to the outperformance of credit over government paper. Global property performed well in absolute terms, but the gain of 4.6% lagged the broader equity markets. Commodities returned 3.7%, but oil and gold were relatively muted with returns of 1.6% and 0.6% respectively. Agricultural commodity futures returned 2.7%.

Fig 1: Relative index values, Developed Markets to Emerging Markets

Source: Bloomberg July 2010

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

Returns to 9 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	5.5	4.6	-2.6
United Kingdom	FTSE All Share TR	**GBP**	5.9	4.3	-2.1
Continental Europe	MSCI Europe ex UK NR	**EUR**	5.5	3.0	-0.9
Japan	Topix TR	**JPY**	3.6	2.4	-4.2
Australia	S&P/ASX 300 TR	**AUD**	3.7	2.2	-8.1
Global	MSCI World NR	**USD**	5.3	4.9	-5.5
Global emerging markets	MSCI World Emerging markets TR	**USD**	4.3	3.8	-2.6
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.3	-0.4	5.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.1	-0.8	3.6
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.0	-0.2	5.6
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	1.0	1.0	5.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.1	0.3	6.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.2	0.3	6.3
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.2	0.4	2.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.1	0.0	3.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	1.1	1.1	6.6
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.5	-0.4	1.9
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.1	-0.1	5.1
Global Government bonds	JP Morgan Global GBI	**USD**	-0.4	0.9	1.3
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.1	1.0	0.2
Global Convertible bonds	UBS Global Convertible Bond	**USD**	2.5	2.5	-2.1
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.1	1.1	6.3

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

Returns to 9 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	5.5	3.1	8.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	4.5	3.2	-10.5
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	3.7	0.8	-0.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	2.2	2.5	-0.1
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	4.1	4.2	-3.9
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	4.6	3.7	-2.9
Currencies					
Euro		**USD**	0.3	3.1	-12.0
Sterling		**USD**	-0.5	1.0	-6.4
Yen		**USD**	-0.9	0.0	5.2
Australian Dollar		**USD**	3.4	3.6	-2.7
Rand		**USD**	1.6	1.0	-3.0
Commodities					
Commodities	RICI TR	**USD**	3.7	1.8	-8.3
Agricultural Commodities	RICI Agriculture TR	**USD**	2.7	4.2	-7.7
Oil	Brent Crude Index (ICE) CR	**USD**	1.6	-1.7	-4.4
Gold	Gold index	**USD**	0.6	-2.8	7.4

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

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