Weekly Review

Week ending 30th July 2010

Last week saw July close on a positive note, with equity markets enjoying strong gains over the month following consecutive declines in May and June. The MSCI World Index gained 8.1% in US Dollar terms while the Citigroup World Broad Investment Grade Index also posted a strong return of 3.3%. Among the factors that appeared to boost markets were reduced concerns over sovereign financing and a healthy start to the quarterly earnings reporting season in the US and Europe. Investors also seemed to be reassured by the results of European bank stress tests despite a reasonable degree of scepticism that the underlying assumptions were not stringent enough.

Macroeconomic data points coming out of Europe have lately been following a bullish trend, with German industrial production expected to rise 1% in June from a month earlier, although much of this is likely a result of euro currency weakness which has proved a significant fillip for exporters. In contrast to this the economic recovery in the US increasingly appears to be losing momentum. Federal Reserve chairman, Ben Bernanke, recently described the outlook for the US economy as "unusually uncertain" as the annualised GDP growth rate declined to 2.4% in the second quarter, down from 3.7% in the first three months of the year. Although the European and US economies appear to be diverging somewhat, this probably just reflects the tendency for the eurozone to lag the US economic cycle by around two - six months. With the US economy decelerating following a burst of activity coming out of the recession, eurozone growth could be following the same pattern, suggesting that economic activity may soften later in the year.

Over the course of July this seeming divergence between the US and European economies was not reflected in equity markets, as the US outperformed Europe with a gain of 7.0% versus 4.7%, but rather in the currency markets as the euro rallied 6.4% versus the US Dollar reaching its strongest level in three months. In fact the US Dollar weakened against most major currencies, including by 7.2% versus the Australian Dollar which enjoyed the additional benefits of strengthening commodity prices. Bond markets lagged higher risk asset classes during the month, although lower rated high yield bonds almost kept pace with equities in some regions. Government bonds produced small but positive absolute returns across most regions including in Europe, although this hides the fact that German bunds actually declined in price with strong returns from weaker periphery Sovereigns offsetting this. The best and the worst of returns for the month were to be found in the commodities sector, as the RICI Agriculture Index gained almost 14% compared to a 6% decline in gold.

As mentioned previously the quarterly earnings season has started well with results typically beating market expectations. Thus far approximately 60% and 35% of US and European companies represented in the S&P 500 and DJ Stoxx 600 have reported, with 81% and 62% of companies producing positive earnings surprises, respectively. Revenue surprises have so far come in at a rate of 61% of US and 74% in Europe. Whilst these results are impressive in both regions, they actually represent a declining surprise ratio in the US compared to Europe which has enjoyed notable improvement.

Looking East, China added to concerns over the health of the global economy on Sunday as the official purchasing managers' index (PMI) sank to its lowest level since February 2009. Outside of the July 2008-February 2009 crisis period, this is the second lowest reading since the index started in January 2005. The slowdown in Chinese growth has been of increasing concern for investors as tightening measures introduced earlier this year have added to the growing uncertainty over global demand. Indeed this week is due to provide a number of other key economic data points including the much focused upon ISM manufacturing and payrolls numbers from the US which are expected to confirm the economy's continued deceleration.

Finally, most markets produced modest positive returns last week. The MSCI World index gained 0.7% whilst global bonds added 1.1%, although much of the latter is explained by continued US Dollar weakness.

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

Returns to 30 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-0.1	7.0	-0.4
United Kingdom	FTSE All Share TR	**GBP**	-1.0	6.9	0.3
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.1	4.7	0.8
Japan	Topix TR	**JPY**	1.0	1.0	-5.5
Australia	S&P/ASX 300 TR	**AUD**	0.8	4.5	-6.1
Global	MSCI World NR	**USD**	0.7	8.1	-2.5
Global emerging markets	MSCI World Emerging markets TR	**USD**	1.1	8.3	1.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.6	0.7	6.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	1.0	0.1	4.6
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.9	2.0	7.9
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.7	3.5	8.1
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.5	-0.3	5.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.9	0.9	6.9
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.4	0.9	3.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.7	1.2	4.8
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	1.3	4.5	10.3
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2	0.4	2.6
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.3	0.0	5.1
Global Government bonds	JP Morgan Global GBI	**USD**	1.2	3.4	3.8
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.1	3.3	2.4
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.8	6.0	1.2
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.7	4.4	9.7

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Returns to 30 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	1.9	9.7	15.2
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-0.1	7.3	-7.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	0.6	7.9	6.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-1.7	1.0	-1.5
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	0.3	8.0	-0.4
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	1.2	9.5	2.5
Currencies					
Euro		**USD**	1.6	6.4	-9.2
Sterling		**USD**	1.7	4.7	-3.0
Yen		**USD**	0.7	2.1	7.4
Australian Dollar		**USD**	1.3	7.2	0.7
Rand		**USD**	2.0	5.0	0.8
Commodities					
Commodities	RICI TR	**USD**	3.0	7.9	-2.7
Agricultural Commodities	RICI Agriculture TR	**USD**	5.3	13.7	0.7
Oil	Brent Crude Index (ICE) CR	**USD**	-0.9	0.3	-2.5
Gold	Gold index	**USD**	-1.8	-6.0	3.9

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