Weekly Review

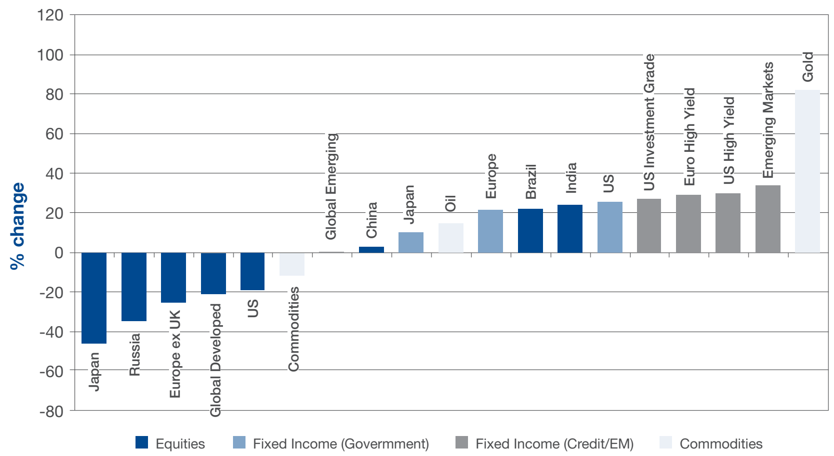
Week ending 6th August 2010

Three years ago this Monday, on August 9th 2007, BNP Paribas cited a "complete evaporation of liquidity" in the market as their reason for suspending three of their funds. The concerns were sufficient for the European Central Bank to inject EUR95 billion into the financial system on that day and for many this marks the beginning of the credit crisis. Markets have witnessed exceptional volatility since then and it is interesting to consider where asset prices are three years on. The chart below shows the considerable variation in performance both across and within asset classes over this period. Within equities the emerging countries have substantially outperformed developed countries, and Brazil and India have significantly outperformed their "BRIC" peers with gains of over 20% in local currency terms. Government bonds have produced solid returns across most of the major developed regions, although more risky credit and emerging market bonds have delivered slightly stronger returns over the full period. No asset class has produced as strong a return as gold over the last three years though, with its return of +82.2%.

Since this day three years ago, equity and bond markets have posted rarely seen returns and unprecedented levels of quantitative easing (QE) have been implemented across large parts of the developed world in an effort to prop markets up, despite this the effects of the credit crisis remain evident. Indeed last week saw growing expectations that the world's largest economy would announce the delivery of a fresh injection of QE following the monthly meeting of the Federal Reserve Board in the US, although this remains unlikely. This follows a string of data releases that suggest the economic recovery is losing momentum and which have further raised fears of a double-dip recession. Amongst the recent disappointing data releases was the US payroll report on Friday which showed only a marginal net change in employment when the effect of laid-off census workers was excluded, as a smaller than expected increase in private sector employees was offset by further layoffs at the federal, state, and local levels. The disappointment was not limited to data for the current month either, as the previous months payrolls were also revised lower. Over the last three months inflation expectations have fallen sharply; in the US 10 year inflation expectations have fallen from 2.4% to below 1.8% per year most recently, as measured by the breakeven rate for inflation protected government bonds. Overall data is pointing towards a sluggish recovery across much of the developed world with markets having adjusted to reflect this over the past few months.

Somewhat unusually almost all asset classes produced positive returns last week. This can partly be explained by the expectations for further QE, which would likely result in governments buying their own bonds and thus reducing yields / increasing prices, coinciding with positive equity returns. On this backdrop global government bonds returned 1.9% for the week, with a weaker US Dollar contributing to this return. Meanwhile developed market equities gained 2.5%, outperforming emerging markets and bringing the year to date return to just ten basis points below flat. Commodities also strengthened as the Broad Commodity Index gaining 2.0%, with a 6.3% increase in the oil price contributed to returns as the price per barrel ended the week above USD80. Meanwhile, gold gained 3.3% on the week.

Asset class returns (local currency), 9th August '07 - 6th August '10



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

Returns to 6 August 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	USD	1.9	1.9	1.4
United Kingdom	FTSE All Share TR	GBP	1.6	1.6	2.0
Continental Europe	MSCI Europe ex UK NR	EUR	1.3	1.3	2.1
Japan	Topix TR	JPY	1.4	1.4	-4.2
Australia	S&P/ASX 300 TR	AUD	1.7	1.7	-4.5
Global	MSCI World NR	USD	2.5	2.5	-0.1
Global emerging markets	MSCI World Emerging markets TR	USD	2.0	2.0	3.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4	0.4	7.1
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.6	0.6	5.2
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.5	0.5	8.4
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5	0.5	8.7
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.0	1.0	6.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	1.1	1.1	8.1
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.1	1.1	4.3
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.6	0.6	5.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	0.8	0.8	11.1
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2	0.2	2.8
Australian Government	JP Morgan Australia GBI TR	AUD	0.1	0.1	5.2
Global Government bonds	JP Morgan Global GBI	USD	1.9	1.9	5.7
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.6	1.6	4.0
Global Convertible bonds	UBS Global Convertible Bond	USD	1.8	1.8	2.9
Emerging Market Bonds	JP Morgan EMBI +	USD	1.4	1.4	11.3

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

Returns to 6 August 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	1.3	1.3	16.7
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-0.5	-0.5	-7.4
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	0.4	0.4	6.6
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	2.2	2.2	0.7
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	3.7	3.7	3.2
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	2.2	2.2	4.8
Currencies					
Euro		**USD**	2.0	2.0	-7.4
Sterling		**USD**	2.0	2.0	-1.1
Yen		**USD**	1.8	1.8	9.3
Australian Dollar		**USD**	1.1	1.1	1.8
Rand		**USD**	0.9	0.9	1.8
Commodities					
Commodities	RICI TR	**USD**	2.0	2.0	-0.8
Agricultural Commodities	RICI Agriculture TR	**USD**	2.4	2.4	3.1
Oil	Brent Crude Index (ICE) CR	**USD**	6.3	6.3	4.8
Gold	Gold index	**USD**	3.3	3.3	7.4

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