Weekly Review

Week ending 13th August 2010

Last week was a disappointing time for investors and the performance and character of the markets over the period made July's effervescence seem but a distant memory. The main news story for the week was the US's Federal Open Market Committee (the Fed) decision to reinvest the proceeds from maturing securities held from the original round of Quantitative Easing (QE) into the debt markets once more. This has been dubbed 'QE2' but this would seem to overstate the likely impact of these measures. In reality, rather than an increase in stimulus, this is a 'non-withdrawal' of stimulus. The real effect is likely therefore to be sentimental in nature as the markets have not greeted the move with optimism. This is perhaps due to the plethora of *slightly* bad news that has dripped into the markets in a piecemeal fashion over the past month or so. The accumulation of this data in the minds of market participants is effective in painting a picture bleak enough to see returns lose impetus. The markets can be fickle and at times like this market participants should be asking themselves 'what is so different today from last month?' If the answer is 'not much' then the sell off of last week is overdone.

China also produced a slew of data that many investors will have spent time trying to digest. The most notable news was that China has, in the second quarter of 2010, surpassed Japan to be the world's second largest economy after the US. This event was inevitable, but the timing less predictable and it is a consequence of both China's long and rapid growth history and also Japan's sluggish GDP growth in the second quarter. China's increasing heft is an important issue for both the international markets and also for global politics as their influence grows. Indeed the New York Times reports that "…China will pass the United States as the world's biggest economy as early as 2030". Predictive statistics may make for excellent copy, but China must not lose their focus. Japan's economy has stagnated for a decade, but this was not always the case. According to the World Bank, Japan had the world's second-largest economy for much of the time since the 1970s. Indeed during the 1980s there were some suggestions that the land of the rising sun would come to eclipse the US in GDP terms. China in 2010 does not closely resemble Japan twenty years ago. Japan's economy is mature and its population ageing, whereas China is still very much an emerging market with significant scope for growth. Japan may miss the illustrious moniker of being the world's second largest economy by GDP, but they would be unlikely to resent China at present. The Japanese, like much of Asia, have benefitted from a booming China and the profits derived by those riding on Chinese coat tails would no doubt be attractive to an economy which is seeing a natural decline in its domestic demand.

Turning to the various asset classes, equities had a negative week, with the MSCI World returning -4.2% in US dollar terms. This is essentially identical to their year to date return of -4.3%. Despite a positive first week of August, the month to date return is -1.8%. Over the same periods, the global emerging markets have outperformed their established counterparts. Last week the MSCI Global Emerging Markets Index returned -2.9% in US dollar terms, but year to date these markets are still just in positive territory, having gained 0.7%. Last week's anxiousness in the markets provided demand for fixed income securities and the bond markets rallied as a result. In local currency terms, global government bonds posted moderate gains, but the composite global government bond return, when translated into US dollars is negative for the week due to the strength of the greenback against other currencies providing a headwind to performance. The Citigroup World Government Bond Index returned 1.4% in US dollar terms over the course of a week, a return matched by the Broad Investment Grade Index. US treasuries and UK gilts gained 0.6% in local currency terms; a gain which is comparable to Japanese government debt returns of 0.5% in yen terms. Year to date, government bonds have gained 4.2% in US dollar terms, with lower quality paper such as investment grade and high yield outperforming the sovereign issues in 2010. Listed properties performed similarly to broader equity markets, with a return of -3.8% in US dollars. Commodities had a mixed week, as the broad index returned -3.1%, whilst the agricultural commodity carve out returned 0.8%, continuing a recent bout of strength for the index.

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

Returns to 13 August 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-3.7	-1.9	-2.4
United Kingdom	FTSE All Share TR	**GBP**	-1.2	0.4	0.7
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.9	-0.7	0.2
Japan	Topix TR	**JPY**	-3.5	-2.2	-7.5
Australia	S&P/ASX 300 TR	**AUD**	-2.2	-0.6	-6.7
Global	MSCI World NR	**USD**	-4.2	-1.8	-4.3
Global emerging markets	MSCI World Emerging markets TR	**USD**	-2.9	-1.0	0.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.6	1.0	7.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.2	0.8	5.4
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	1.0	8.9
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.7	-0.2	7.9
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.6	1.6	7.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.6	1.7	8.8
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.0	1.1	4.3
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.4	1.1	5.9
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.4	0.3	10.6
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.5	0.7	3.3
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.5	0.6	5.7
Global Government bonds	JP Morgan Global GBI	**USD**	-1.4	0.4	4.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-1.4	0.2	2.6
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-2.6	-0.9	0.3
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.7	2.2	12.1

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Returns to 13 August 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-3.8	-2.6	12.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-1.5	-2.0	-8.9
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-1.8	-1.5	4.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-0.1	2.1	0.6
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-3.3	0.3	-0.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-3.8	-1.7	0.8
Currencies					
Euro		**USD**	-4.0	-2.1	-11.1
Sterling		**USD**	-2.4	-0.5	-3.5
Yen		**USD**	-1.4	0.4	7.8
Australian Dollar		**USD**	-2.0	-1.0	-0.3
Rand		**USD**	-1.2	-0.2	0.6
Commodities					
Commodities	RICI TR	**USD**	-3.1	-1.1	-3.8
Agricultural Commodities	RICI Agriculture TR	**USD**	0.8	3.2	3.9
Oil	Brent Crude Index (ICE) CR	**USD**	-4.2	1.9	0.5
Gold	Gold index	**USD**	0.5	3.9	7.9

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