

Weekly Review

Week ending 10th September 2010

Equity markets strengthened slightly last week, building on strong returns from the previous week and leaving the MSCI World Index 5.5% higher for the month to date. Meanwhile government bonds produced negative returns, with the 10 year US Treasury yield rising to 2.79% and contributing to a -0.7% decline for the JP Morgan Global Government Bond Index.

Headlines over the past week have to a large extent focused on the new capital requirements that were due to be introduced for European banks. The uncertainty around prospects for the banking sector was reduced on Sunday as the Basel Committee on Banking Supervision outlined tougher bank-capital requirements that broadly met market expectations. Various hurdles have now been set with deadlines between 2015 to 2019, allowing plenty of time for banks to make the required adjustments. Indeed such changes have been in the pipeline ever since it became clear that banks were unprepared for the events of 2008 resulting in a financial crisis that could arguably have been mitigated by more prudent legislation. As a result banks have been controversially preparing for more stringent capital requirements by hoarding cash, much to the dissatisfaction of politicians in many Western countries who have been urging banks to lend more in order to kick-start economic growth, and it seems that most banks should be able to meet the requirements without recourse to further equity offerings. Although this may not have markedly changed the fundamentals for the sector it has added considerable clarity which is valuable given the continued uncertainty around European sovereign debt.

Further good news came in the form of data released by China over the weekend suggesting that the economy is on path for a 'soft landing' following the withdrawal of emergency stimulus measures earlier this year. There had been concerns that Chinese growth would slow dramatically but Saturday's data showed stronger than expected figures for industrial production, retail sales and fixed asset investments. Fears over the implications of Chinese policy have caused the equity market to stutter over the past year with the Shanghai Composite Index experiencing a peak to trough decline of

over 30% between August 2009 and July 2010. Since early July however the index has rebounded by over 12%.

Despite a prolonged period of weakness for risk assets it seems that many investors are still increasing their bets on higher volatility in the coming months, which usually occurs when markets decline. Research from Bloomberg shows that demand for futures contracts on the VIX implied volatility index has risen to levels that have only been reached seven times since 2004, and on five of these occasions US equities have posted gains over the following six months. Bloomberg also recently reported that "About \$33 billion flowed out of funds owning U.S. shares this year... About \$185 billion was sent to bond funds through July 31, the most on record, according to the Investment Company Institute." This suggests that investors may be overly focused on owning assets that suit their negative expectation of the forthcoming economic environment regardless of price, as opposed to analysing the relative value of these assets and understanding the market expectations that have already been discounted for. There is a chance that investors have become overly pessimistic thus presenting a good buying opportunity in equities.

Focusing on market performance over the last week, on four out of the five days global equities gained while government bonds weakened. Developed market equities made a modest gain of 0.7% over the week with some regional variation, while emerging market equities outperformed as they rose 1.0%. Meanwhile sovereign debt prices fell as yields rose across all major regions including emerging markets, resulting in marginal declines for investment grade debt as well where nominal yields are referenced to government bonds. High yield debt is however less sensitive to rising government bond yields and managed to post local currency gains of 0.7% and 0.5% in the US and Europe respectively. The Australian Dollar was the main mover amongst currencies, gaining 1.3% against the US Dollar over the week and bringing it's month to date gain to 4.1%. Commodity markets also enjoyed a second week of strong gains as the broad commodity index gained 1.0% whilst soft commodities strengthened by 1.4%.

Returns to 10 September 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	USD	0.5	5.8	0.5
United Kingdom	FTSE All Share TR	GBP	1.5	5.5	5.6
Continental Europe	MSCI Europe ex UK NR	EUR	1.4	5.4	4.0
Japan	Topix TR	JPY	1.2	3.6	-7.2
Australia	S&P/ASX 300 TR	AUD	0.7	4.0	-3.4
Global	MSCI World NR	USD	0.7	5.5	-1.1
Global emerging markets	MSCI World Emerging markets TR	USD	1.0	4.6	4.2
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.4	-1.4	7.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.2	-0.6	5.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2	-1.1	8.8
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.7	1.3	9.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.8	-2.5	7.8
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	-0.1	-1.3	10.0
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5	-1.3	4.5
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0	-0.6	6.2
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	0.5	1.2	12.7
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.3	-1.2	2.1
Australian Government	JP Morgan Australia GBI TR	AUD	-0.7	-1.0	6.3
Global Government bonds	JP Morgan Global GBI	USD	-0.7	-1.4	4.6
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.6	-1.1	2.7
Global Convertible bonds	UBS Global Convertible Bond	USD	0.2	2.4	2.6
Emerging Market Bonds	JP Morgan EMBI +	USD	-0.8	-0.6	11.8

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

Returns to 10 September 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	USD	-1.9	4.1	18.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.5	5.4	-2.7
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	2.1	5.1	12.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	-1.0	2.0	4.5
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.1	4.4	4.6
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-0.1	4.5	6.2
Currencies					
Euro		USD	-1.1	0.1	-11.3
Sterling		USD	-0.4	0.1	-4.7
Yen		USD	0.1	-0.3	10.5
Australian Dollar		USD	1.3	4.1	3.0
Rand		USD	0.1	2.8	2.7
Commodities					
Commodities	RICI TR	USD	1.0	4.4	-1.3
Agricultural Commodities	RICI Agriculture TR	USD	1.4	5.6	8.5
Oil	Brent Crude Index (ICE) CR	USD	2.2	1.7	-0.4
Gold	Gold index	USD	0.5	0.0	10.8

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