

Weekly Review

Week ending 17th September 2010

Last week the Bank of Japan (BoJ) intervened in currency markets for the first time in more than six years to weaken the yen versus the US Dollar. A strong Yen is of course detrimental to a sustained recovery in the land of the rising sun, which is heavily dependent on exports. Combined with a slowdown in the Chinese economy, now Japan's largest trading partner, local currency strength could derail any possible recovery of a long suffering Japanese equity market. The central bank's action marks a further easing of Japan's monetary policy, and the intervention caused the Japanese currency to weaken around ¥3 from a 15-year high of ¥82.88 against the Dollar.

Central bank intervention (or at least talk of) was not only limited to Japan, as seen in reports following Friday's sell-off of Irish bonds. Ireland's five year Credit Default Swaps (CDS) were at an all time wide on Friday and 10 year bonds hit 6.29%, the highest since the single-currency was launched. This was presumably on the back of Barclays Capital's research report that warned of a potential International Monetary Fund / European Central Bank rescue package. If Ireland can still get into trouble having done everything it could to reign in government spending earlier than virtually anyone else then it highlights potential problems for all stressed Sovereigns. In many ways their destiny is outside of their hands.

Moving on to a much longer term view on investments: in a recent Deutsche Bank report the current rolling 25 year performance of a 50/50 US bonds/equities portfolio is shown to still be fairly high relative to the long term trend of 7.3% per annum. The chart below illustrates the so-called "Golden Era" of investment

where the rolling 25 year returns were consistently above 10% per annum from 1995 to 2009. This is not too dissimilar to the above average returns seen in commodities and property over the same period. On the assumption that most asset classes will exhibit some reversion to the long term mean, a sustained period of single digit annual returns across most risk assets (in the developed world at least) would not be surprising. Corporate bonds have normalised to average valuations, equities have arguably returned to below or around average valuations with government bond yields now looking rich relative to history. Property still looks fully valued and commodities are the class with most to lose if all assets mean revert.

In markets last week equities continued their strong run from the start of the month. The MSCI World Index added 1.5% (+7.1% month to date) and emerging markets ended the week 2.3% higher (+7.0% month to date). High yield bonds in the US (+0.9%) and Europe (+1.4%) also rallied as sentiment in markets improved. Government bond yields paused, in some instances rising slightly, but still seem to price much lower levels of inflation compared to the long term trend, and muted economic growth around the developed world.

Following the BoJ's intervention the Japanese Yen was weaker against the US Dollar, euro and Pound Sterling, with the greenback also losing ground against the pan European currencies. The spot price of gold continued to rise and reached a high of over USD 1,275 last week.

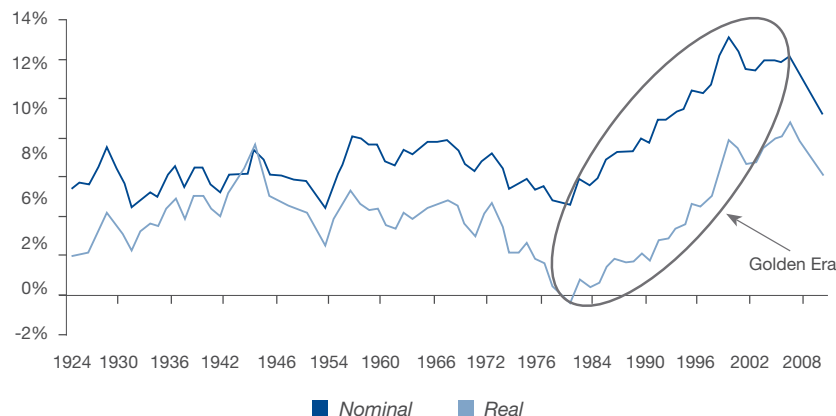


Figure 1: Rolling 25-year Real and Nominal Return of 50/50 Split of US Treasuries and Equities
Source: Deutsche Bank, GFD

Returns to 17 September 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	USD	1.5	7.4	2.0
United Kingdom	FTSE All Share TR	GBP	0.2	5.6	5.7
Continental Europe	MSCI Europe ex UK NR	EUR	-0.7	4.6	3.2
Japan	Topix TR	JPY	2.2	5.9	-5.1
Australia	S&P/ASX 300 TR	AUD	1.9	5.9	-1.6
Global	MSCI World NR	USD	1.5	7.1	0.5
Global emerging markets	MSCI World Emerging markets TR	USD	2.3	7.0	6.6
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.3	-1.1	7.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.1	-0.7	5.7
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3	-0.8	9.2
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.9	2.2	10.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.1	-2.5	7.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.1	-1.6	9.7
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.5	-1.8	4.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1	-0.5	6.3
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	1.4	2.9	14.5
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.5	-0.8	2.5
Australian Government	JP Morgan Australia GBI TR	AUD	-0.6	-1.6	5.7
Global Government bonds	JP Morgan Global GBI	USD	0.3	-1.0	4.9
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.6	-0.5	3.3
Global Convertible bonds	UBS Global Convertible Bond	USD	1.2	3.7	3.9
Emerging Market Bonds	JP Morgan EMBI +	USD	0.4	-0.2	12.2

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

Returns to 17 September 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	USD	1.8	6.0	20.5
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-1.6	3.7	-4.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.1	6.3	14.0
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	-1.1	0.9	3.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.4	5.8	6.0
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	1.5	6.1	7.8
Currencies					
Euro		USD	2.5	2.7	-9.1
Sterling		USD	1.6	1.7	-3.2
Yen		USD	-1.9	-2.2	8.4
Australian Dollar		USD	1.1	5.3	4.2
Rand		USD	0.2	3.0	2.9
Commodities					
Commodities	RICI TR	USD	1.3	5.7	-0.1
Agricultural Commodities	RICI Agriculture TR	USD	3.5	9.3	12.2
Oil	Brent Crude Index (ICE) CR	USD	1.4	3.7	1.6
Gold	Gold index	USD	2.2	2.3	13.2

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