Weekly Review

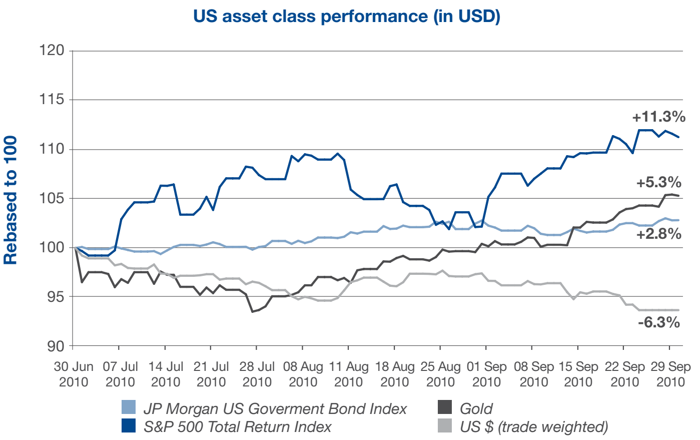
Week ending 1st October 2010

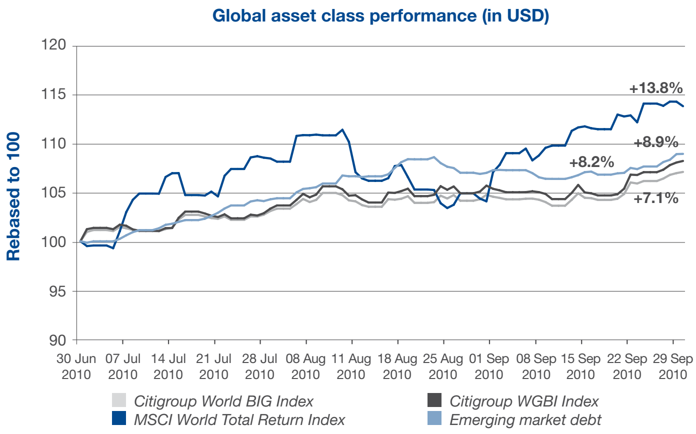
The third quarter came to an end last week with the S&P 500 registering its highest September return since 1939 (+8.9%). It was certainly a strong quarter for risk assets as equities and non US Dollar currencies across the globe rallied. In this week's market review we take a brief look at the quarter's performance across a number of asset classes.

The broad theme over the last quarter has been the strong performance of risk assets in spite of mixed economic news, coupled with the continued strength of government bonds in the US, Eurozone, UK and Japan. The latter can probably be ascribed to the realisation that short-term interest rates will probably remain lower for longer than originally expected, and inflation is not (yet) on the horizon. Whilst global economies seem to be in for a long, muted recovery (even feeble at times) the generally high level of cash on corporate balance sheets certainly points to increased merger and acquisitions activity. Corporate funding costs are also very low at the moment as was clear from Microsoft's corporate bond issue of a $1 billion 3-year tranche at a coupon of only 0.875%. This and other similar actions by multinational corporations illustrate that corporate management teams broadly prefer bonds over equity issuance as a current source of capital.

The valuation gap between equities and bonds has been narrowed in the equity markets over the last quarter, with the US Dollar reflecting the increase in risk appetite as it lost ground against most major and emerging currencies. (The US Dollar trade weighted index drifted more than 6% lower over the quarter).

As can be seen in the graph below US equities outperformed US Treasuries, although some of this outperformance was boosted by the weaker Dollar which would have assisted valuations of the many globally operating companies listed on the S&P 500. Amongst global asset classes the story was broadly similar to what transpired in the US: the MSCI World added 13.8%, with government, broad investment grade and emerging market bonds all adding between 7% and 9% for the three months. The latter was once again much more a function of the greenback's weakness, as spreads over government bonds narrowed only marginally during the quarter. The traditional safe haven of gold stood US Dollar based investors in good stead (+5.3%), but investors in other parts of the world would have been better off holding cash or bonds as the precious metal was down in Japanese Yen (-0.8%) and euros (-5.2%).





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

Returns to 1 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-0.2	0.4	3.9
United Kingdom	FTSE All Share TR	**GBP**	0.1	0.8	7.5
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.8	-0.6	2.3
Japan	Topix TR	**JPY**	-0.2	0.1	-6.9
Australia	S&P/ASX 300 TR	**AUD**	-0.4	-0.1	-2.7
Global	MSCI World NR	**USD**	0.2	0.4	3.0
Global emerging markets	MSCI World Emerging markets TR	**USD**	3.1	1.0	11.8
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.5	0.0	9.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.3	0.3	7.4
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.7	-0.1	10.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.8	0.2	11.6
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.9	-0.1	9.8
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.6	-0.1	11.0
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.4	0.1	4.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.1	0.0	6.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.4	0.1	15.0
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2	-0.1	3.3
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.0	-0.4	5.9
Global Government bonds	JP Morgan Global GBI	**USD**	1.3	0.3	8.7
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.1	0.3	6.5
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.7	0.5	6.3
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.3	0.2	14.6

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Returns to 1 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-0.8	0.6	19.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.7	2.3	-0.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.9	0.3	18.3
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-0.6	-0.1	1.4
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	2.5	0.8	11.3
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	1.2	0.8	10.9
Currencies					
Euro		**USD**	2.0	0.7	-4.2
Sterling		**USD**	0.0	0.3	-2.1
Yen		**USD**	1.1	0.3	11.8
Australian Dollar		**USD**	1.2	0.2	7.9
Rand		**USD**	1.2	0.6	6.2
Commodities					
Commodities	RICI TR	**USD**	1.0	-0.1	2.6
Agricultural Commodities	RICI Agriculture TR	**USD**	-5.1	-3.0	8.0
Oil	Brent Crude Index (ICE) CR	**USD**	4.8	4.2	4.8
Gold	Gold index	**USD**	1.5	0.7	17.0

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

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