



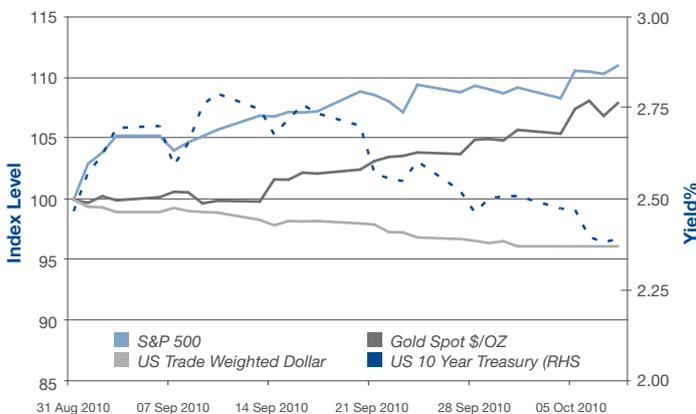
Weekly Review

Week ending 8th October 2010

Almost all asset classes posted positive returns last week as the focus remained on central bank stimulus plans in response to continued weaker than expected growth. The prospect of further quantitative easing (so-called 'QE2') in the United States and other major economies is a key theme within markets and, for the time being at least, bad economic data is only serving to further encourage hopes of a fresh injection of liquidity. This has given rise to an unusual situation whereby equities, government bonds and gold have all been delivering positive returns whilst the US Dollar has been weakening. Indeed last week the S&P 500 returned 1.7%, the 10 year US treasury yield fell by 12 basis points, and gold hit a new high of USD 1364 a troy ounce. This trend is shown in the graph below.

likely prove to be a boon to the US economy via increased net exports which would certainly not be an undesirable outcome for an embattled president approaching difficult mid term elections, who only recently declared a goal of doubling exports over 5 years. On a trade weighted basis the US Dollar has weakened by almost 5% in the past five weeks, which will largely be to the benefit of US companies who in aggregate derive approximately half of their revenues from abroad. However, such weakness is hampering the relative competitiveness of eurozone companies who have seen their currency appreciate by over 15% versus the US Dollar since early June.

US asset class performance (in USD)



The most recent example of equity and bond markets rising on bad news came on Friday as US payroll reports came in weaker than expected. Non farm payrolls fell by 95,000 in September, while private sector payrolls increased by only 64,000 leaving the unemployment rate steady at 9.6%. With several other key economic indicators losing momentum at the same time this data point served to further fuel speculation that the Federal Reserve will soon be pumping more money into the world's largest economy. While the main objectives of a second round of government bond and asset purchases would include reducing borrowing costs in order to stimulate investment and growth, one of the consequences, be it intended or not, would be a weaker US Dollar. This would

Elsewhere, the Bank of Japan announced that they would be making a further five trillion yen (USD60 billion) of asset purchases, and also lowering their key interest rate from 0.1% to between zero and 0.1% whilst signalling that rates would remain at this level until prices stabilised. This had the expected weakening effect on the Japanese Yen but the impact was short lived as the currency went on to grind higher versus the US Dollar to reach 15 year highs. Central banks in the UK and Australia both kept rates on hold last week, at 0.5% and 4.5% respectively. The latter came as a surprise to markets and led to further strength in the Australian currency taking it to its highest level versus the Greenback since it floated in 1983.

All major asset classes posted positive returns last week. The MSCI World Index gained 2.2% and outperformed emerging markets which returned 1.4%. Global government bonds returned 1.4 % over the period as US Dollar weakness boosted returns, whilst US TIPS (Treasury Inflation Protected Securities) gained 2.2% as inflation expectations increased - since late August the expected 10 year rate of inflation in the US has risen sharply from 1.5% to 2.0%. Investment grade and high yield debt outperformed government debt as credit spreads narrowed during the week. Commodities produced the strongest returns across all asset classes under review with the broad RICI Index gaining 3.3% in US Dollar terms, and the narrower RICI Agriculture Index rising by 7.5%.

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

Returns to 8 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	USD	1.7	2.1	5.6
United Kingdom	FTSE All Share TR	GBP	1.2	2.0	8.8
Continental Europe	MSCI Europe ex UK NR	EUR	1.5	0.9	3.9
Japan	Topix TR	JPY	1.1	1.2	-5.8
Australia	S&P/ASX 300 TR	AUD	2.3	2.2	-0.5
Global	MSCI World NR	USD	2.2	2.6	5.3
Global emerging markets	MSCI World Emerging markets TR	USD	1.4	2.4	13.4
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.6	0.5	9.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	2.2	2.6	9.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.9	0.8	11.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.0	1.3	12.8
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.4	0.3	10.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.6	0.5	11.6
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4	0.5	5.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.5	0.5	7.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	1.2	1.3	16.4
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2	0.1	3.5
Australian Government	JP Morgan Australia GBI TR	AUD	0.2	-0.2	6.1
Global Government bonds	JP Morgan Global GBI	USD	1.4	1.7	10.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.3	1.6	7.8
Global Convertible bonds	UBS Global Convertible Bond	USD	1.5	1.9	7.8
Emerging Market Bonds	JP Morgan EMBI +	USD	1.2	1.4	16.0

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Returns to 8 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	USD	2.4	3.0	22.2
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	3.1	5.4	2.9
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.0	1.3	19.5
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	1.1	1.0	2.5
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	3.6	4.4	15.3
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	2.9	3.7	14.1
Currencies					
Euro		USD	1.4	2.1	-2.9
Sterling		USD	0.8	1.1	-1.3
Yen		USD	1.8	2.1	13.7
Australian Dollar		USD	1.4	1.6	9.4
Rand		USD	1.3	1.9	7.5
Commodities					
Commodities	RICI TR	USD	3.3	3.3	6.0
Agricultural Commodities	RICI Agriculture TR	USD	7.5	4.4	16.2
Oil	Brent Crude Index (ICE) CR	USD	4.8	9.3	9.9
Gold	Gold index	USD	1.9	2.6	19.2

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