Weekly Review

Week ending 29th October 2010

October drew to a close last week concluding a second consecutive month of gains for global equity markets. Stocks have been rising at a frenetic pace lately with the S&P 500 having gained in eight of the past nine weeks propelling the index from its end of August level of 1049 to an October close of 1183. Such gains are clearly unsustainable and this week brings with it a fair degree of 'event risk' from the US in the form of mid term elections, the FOMC meeting that will determine the extent of additional quantitative easing and US payrolls data.

With developed market equities now 6.4% higher year to date it is unlikely that these gains are on the back of more positive expectations for global growth as leading economic indicators have lost considerable momentum this year. Recent data out of China has remained encouraging and despite its recent slowdown in growth the world's second largest economy will certainly make a large contribution to overall global GDP growth this year, but of more relevance to global investors is the question of whether it will be able to make a big contribution to the rest of the world's growth i.e. will China's growth pull others along with it? Although China and other emerging economies may account for a large and growing proportion of exports for many countries, the actual contribution to overall GDP from this component may in fact be small in comparison to domestic consumption.

Instead it seems that much of these recent moves back into the 'risk' trade have been in anticipation of further quantitative easing being announced at November's FOMC meeting. The announcement of 'QE2' has been discounted by markets as almost being a certainty by now, although there is no strong consensus about the amount or timing of any further stimulus. The implied schedule that gained most favour last week was that the Fed would initially commit to purchasing USD500 billion over a six month period and then reflect on the programme, whilst leaving themselves with considerable flexibility to deal with changing information along the way. Either way the US and therefore global economies remain in uncharted territory with nobody really knowing what the right amount of QE (if any) is at this point. As such Wednesday's announcement could prove to be a key turning point for markets.

The US mid term elections on Tuesday are an additional key event that could move markets, with polls suggesting the Republicans will take back the House of Representatives in only the third change of hands for over 50 years. President Obama's Democrats are also expected to lose ground in the Senate and, although they may retain majority control, the Republicans could gain the ability to block any bill they wish. This would severely impact Obama's ability to enact his policy agenda and have a significant impact on such key issues as the deficit, financial and healthcare reforms and the Bush tax cuts.

Meanwhile equity returns in October benefited from another strong reporting season in the US. At the time of writing approximately two thirds of the market by value had reported Q3 earnings with almost 70% beating consensus earnings estimates and with revenue mostly in line with, or better than, consensus.

Looking at equity markets more generally; in October the MSCI World Index gained 3.7% in US Dollar terms to outperform global emerging markets which gained 2.9%. Returns were similar across most developed markets in local currency terms except for the usual outlier that is Japan, where the Topix Index declined by over -2%. The continued strength of the Yen has negative implications for the country's exporters. US Dollar weakness contributed to global government bonds gaining 1.3% for the month, concealing the fact that the asset class actually produced negative returns within all major regions when viewed in local currency terms. Investment grade debt outperformed sovereigns marginally, but it was riskier high yield and emerging market bonds that produced excellent returns, with US high yield gaining 2.6%. Year to date these asset classes, along with emerging market equities and agricultural commodities, have produced double-digit local currency returns; far outstripping most other asset classes. Commodities also benefited from US Dollar weakness in October with the RICI Commodity Index and oil rising by 4.7% and 6.8% respectively.

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

Returns to 29 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	0.0	3.8	7.3
United Kingdom	FTSE All Share TR	**GBP**	-1.0	2.5	9.4
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.9	2.7	5.7
Japan	Topix TR	**JPY**	-1.7	-2.2	-9.0
Australia	S&P/ASX 300 TR	**AUD**	0.3	1.8	-0.8
Global	MSCI World NR	**USD**	0.0	3.7	6.4
Global emerging markets	MSCI World Emerging markets TR	**USD**	0.1	2.9	14.0
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.1	-0.2	8.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.1	2.7	9.9
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.1	0.1	10.9
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.6	2.6	14.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.8	-1.4	8.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.5	-0.4	10.7
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.3	-0.5	4.1
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.1	-0.1	6.4
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.2	2.0	17.2
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.2	-0.4	3.0
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.0	-0.4	5.8
Global Government bonds	JP Morgan Global GBI	**USD**	0.2	1.3	9.8
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.1	1.2	7.4
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.5	3.5	9.5
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.6	1.8	16.5

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Returns to 29 October 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-1.7	4.7	24.2
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	0.2	5.8	3.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-0.9	2.7	21.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-0.3	-0.2	1.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-0.9	3.2	14.0
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-1.1	4.0	14.5
Currencies					
Euro		**USD**	-0.2	1.8	-3.1
Sterling		**USD**	2.0	1.5	-1.0
Yen		**USD**	1.1	3.7	15.6
Australian Dollar		**USD**	0.0	1.2	9.0
Rand		**USD**	-0.1	0.3	5.9
Commodities					
Commodities	RICI TR	**USD**	1.3	4.7	7.5
Agricultural Commodities	RICI Agriculture TR	**USD**	3.1	10.9	23.5
Oil	Brent Crude Index (ICE) CR	**USD**	0.6	6.8	7.4
Gold	Gold index	**USD**	1.8	3.0	19.7

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