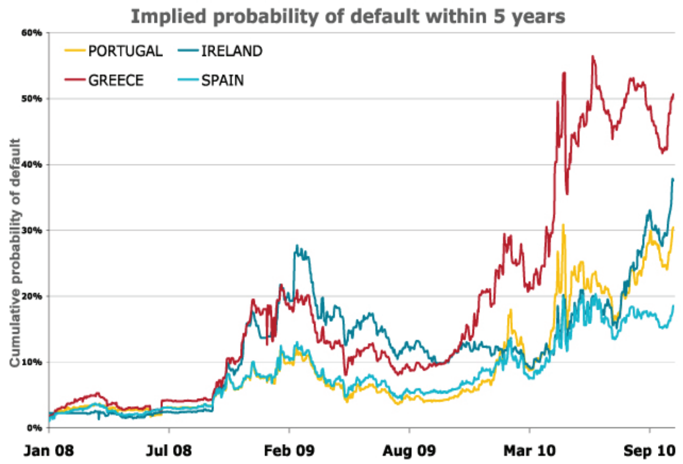
Weekly Review

Week ending 5th November 2010

The key drivers of market returns continue to emanate from the United States in the short term as the Federal Reserve achieved further success in its efforts to lift asset prices. Last week's announcement of further quantitative easing (QE) was broadly as expected with the Fed committing to purchasing USD 600bn of bonds over the next eight months. Buying is to be targeted at bonds with an average duration of five to six years. These purchases come on top of the Fed's previous decision to reinvest maturing proceeds of the mortgage-backed securities purchased as part of the first round of QE. Apart from a sell-off in 30 year maturity bonds the initial reaction within the Treasury market was relatively muted. To put the stimulus amount into perspective, total Fed purchases over the period until June next year will be as much as USD 900bn, which is enough to fund over half of the US's expected budget deficit in 2011. According to the Fed's own estimates USD 500bn of asset purchases equates to approximately a 50-75 bps reduction in the Fed Funds rate, confirming that this is indeed a very meaningful action, but we would expect this shot of liquidity to probably have the biggest impact on the economy via asset price inflation and dollar weakness.

Whilst most investors will welcome such gains in their portfolios, US policy is not proving as popular with politicians overseas. The German Finance minister was quoted as saying that, "they [the US] make a reasonable balance between industrial and developing countries more difficult and they undermine the credibility of the US in finance policymaking". This is representative of the opinions of a number of countries at this present time, particularly economies such as Hong Kong where interest rates and exchange rates are pegged to those in the US, but GDP growth is tied to China. Asset prices are now flying higher as a result of the US's stimulative monetary policies, which will continue to be inadvertently imported unless currencies appreciate significantly. While this excess stimulus can be partly neutralised by exchange rate appreciation, many Asian economies are reluctant to see their currencies move too much higher given the consequences of reduced competitiveness, particularly versus China.



Meanwhile, whilst the likes of the US, the UK and Japan have seemingly enjoyed some success from their concerted efforts to weaken their currencies, the corollary is that the euro has enjoyed a sustained period of relative strength. With September's data releases suggesting that activity may be peaking in the Eurozone (amongst other releases retail sales declined for the second month in a row) a strong euro will further reduce the growth outlook for the region. The problems related to European periphery debt have not abated either and indeed implied default rates have risen sharply in recent weeks, reaching new highs in the case of Ireland (see chart above).

The Fed's announcement continued positive earnings surprises and some strong macro data provided a bullish backdrop for risk assets during the week, with almost all asset classes posting positive returns. Global developed and emerging equities added 3.5% and 4.6% over the period respectively, with higher beta cyclical stocks continuing to outperform defensives. Most bond markets posted small gains except in Australia where the central bank surprised market participants with a 25bp interest rate hike to 4.75%. Commodities outperformed most other asset classes over the week, and indeed over the year, on the back of the falling greenback with gold hitting a new nominal high of USD 1393 / oz.

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

Returns to 5 November 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	3.6	3.6	11.2
United Kingdom	FTSE All Share TR	**GBP**	3.4	3.4	13.1
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.5	1.5	7.2
Japan	Topix TR	**JPY**	3.0	3.0	-6.3
Australia	S&P/ASX 300 TR	**AUD**	2.0	2.0	1.1
Global	MSCI World NR	**USD**	3.5	3.5	10.1
Global emerging markets	MSCI World Emerging markets TR	**USD**	4.6	4.6	19.2
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.2	0.2	9.1
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.2	0.2	10.2
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	0.5	11.4
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.9	0.9	15.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.6	0.6	9.0
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.6	0.6	11.3
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.0	0.0	4.1
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.4	0.4	6.8
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.1	0.1	17.3
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.0	0.0	3.0
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.3	-0.3	5.5
Global Government bonds	JP Morgan Global GBI	**USD**	0.3	0.3	10.1
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.4	0.4	7.9
Global Convertible bonds	UBS Global Convertible Bond	**USD**	1.8	1.8	11.4
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.0	1.0	17.7

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

Returns to 5 November 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	5.0	5.0	30.4
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	1.9	1.9	5.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-0.4	-0.4	20.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.0	1.0	2.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	5.4	5.4	20.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	4.5	4.5	19.6
Currencies					
Euro		**USD**	1.0	1.0	-2.2
Sterling		**USD**	1.4	1.4	0.4
Yen		**USD**	-1.0	-1.0	14.4
Australian Dollar		**USD**	3.4	3.4	12.7
Rand		**USD**	2.4	2.4	8.4
Commodities					
Commodities	RICI TR	**USD**	4.8	4.8	12.7
Agricultural Commodities	RICI Agriculture TR	**USD**	4.0	4.0	28.4
Oil	Brent Crude Index (ICE) CR	**USD**	5.0	5.0	12.7
Gold	Gold index	**USD**	3.6	3.6	24.0

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

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