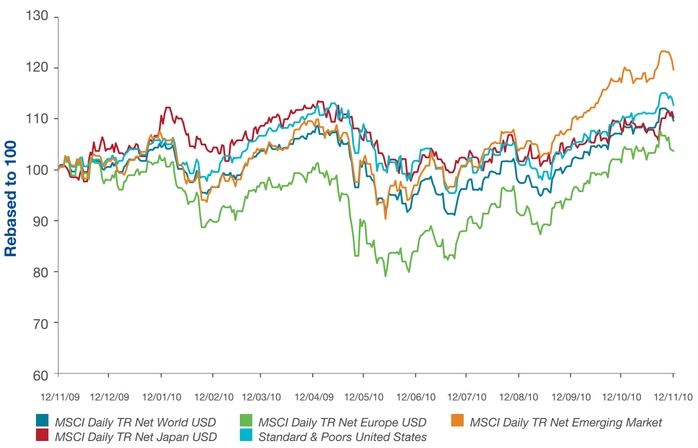
Weekly Review

Week ending 12th November 2010

During our manager research trip to Australia earlier this year we came across the acronym GFC – which we at the time learnt stands for Global Financial Crisis. Down under some investors even referred to the AFC - "A" referring to "American"… However, in the last twelve months (after the initial bounce in markets) there has not been a large divergence of USD returns across the major regions as the graph below shows. When measured in the same currency it is perhaps somewhat surprising to see that the laggard (in local currency terms) over the last year (Japan) has in fact kept pace with the MSCI World, and is not too far behind the US. Europe has in actual fact been the underperformer for most of the year, whilst emerging markets have continued to push ahead (albeit not quite in decoupling mode yet…). Emerging markets also only managed to show a clean pair of heels in the last two months of the period under analysis, and as mentioned before in the Weekly review are now starting to look expensive relative to developed markets. Mutual fund flows into emerging market funds, coupled with QE2, should however support the markets at these levels in the near term.

Rolling 12 month performance of global equity markets



In the build-up to, and during the G20 summit, the phrase "currency war" has been used by many market commentators with remarkable ease. The United States and China are often cited as the main antagonists in the same breath. As Jim O'Neill, Goldman Sachs Asset Management's Chairman, rightly points out a war refers to "a phenomenon of organized, violent conflict, typified by extreme aggression, societal disruption and adaptation, and high mortality." To add the word "currency" in front of this seems to be a far stretch at the minute, if one takes into account that the Chinese currency has in fact appreciated by about 20 percent against the US Dollar over the last five years, of which around three percent came since the middle of the year. The enormous excess capacity in the U.S. economy means monetary policy will stay reflationary for some time to come. Recent data has however shown that the Chinese economy is heating up again. CPI inflation has accelerated to 4.4%, well above the PBoC's 3% target for the year. China cannot continue to import the Fed's ultra-easy monetary approach by linking the Renminbi to the dollar. The most likely outcome is for Chinese authorities to revert to the pattern of a gradual appreciation of the Renminbi as seen in 2005–2008. According to BCA Research the implications for foreign exchange markets are clear: the Renminbi will continue to strengthen versus U.S. dollar, other Asian currencies will track the Renminbi higher, strong growth in China will support the commodity complex and in turn push the Australian and Canadian dollars higher and finally, growing Chinese reserves will create a diversification demand for euros.

Across the globe most asset classes and regions took a breather from recent strong gains; global equities (-2.2%), global bonds (-1.7%), broad commodities (-3.2%) and even gold (-0.5%) receded during the week. The Japanese Yen ended a multi-week bull run as it gave up 1.2% against the greenback, with the latter gaining against most major and emerging market currencies.

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

Returns to 12 November 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-2.1	1.4	8.9
United Kingdom	FTSE All Share TR	**GBP**	-1.4	1.9	11.5
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.1	0.4	6.0
Japan	Topix TR	**JPY**	1.4	4.5	-0.5
Australia	S&P/ASX 300 TR	**AUD**	-0.6	1.3	0.5
Global	MSCI World NR	**USD**	-2.2	1.3	7.8
Global emerging markets	MSCI World Emerging markets TR	**USD**	-3.0	1.4	15.6
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.1	-0.8	8.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-1.2	-0.9	8.9
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-1.1	-0.7	10.2
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.4	0.5	14.7
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-1.5	-0.9	7.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-1.6	-1.0	9.5
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.8	-0.8	3.3
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.7	-0.3	6.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-1.2	-1.1	15.9
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.4	-0.4	2.6
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.2	-0.5	5.3
Global Government bonds	JP Morgan Global GBI	**USD**	-1.9	-1.6	8.0
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-1.7	-1.3	6.0
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-1.3	0.4	9.9
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-2.1	-1.1	15.3

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

Returns to 12 November 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-5.3	-0.5	23.5
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-2.7	-0.8	2.3
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-4.2	-4.5	15.7
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-3.2	-2.3	-1.0
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-3.4	1.8	16.0
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-4.6	-0.3	14.1
Currencies					
Euro		**USD**	-2.3	-1.4	-4.5
Sterling		**USD**	-0.4	1.0	0.0
Yen		**USD**	-1.2	-2.2	13.0
Australian Dollar		**USD**	-2.5	0.9	9.9
Rand		**USD**	-2.1	0.3	6.2
Commodities					
Commodities	RICI TR	**USD**	-3.2	1.5	9.2
Agricultural Commodities	RICI Agriculture TR	**USD**	-4.8	-1.0	22.2
Oil	Brent Crude Index (ICE) CR	**USD**	1.4	6.5	14.3
Gold	Gold index	**USD**	-0.5	3.1	23.4

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