Weekly Review

Week ending 19th November 2010

The major news story of the past week actually took place over the weekend as Ireland officially requested assistance from the European Union on Sunday evening. The assistance is likely to take the form of a three-year loan package, the details of which should be announced by the end of the month. Speculation surrounding these loans has led to a consensus figure of EUR100 billion, although this remains to be confirmed. It appears likely that the country's appealing corporate tax rate, which at 12.5% has brought many companies to its shores, will remain unchanged. More vulnerabe, however, is Ireland's minimum wage which is currently the second highest in Europe. This package will have relieved the immediate pressure on Ireland's financial system, but is yet another example of the West deferring the problem rather than tackling it head on. Many of the imbalances in both Europe and the US have come from over-leveraging, and attempting to rectify the problem by adding more debt does not bode well for the long term. In the short term, however, these measures should shore up confidence in peripheral Europe. Despite a strong start, markets reacted poorly to the announcement on Monday with Credit Default Swaps (CDS) widening for many European sovereigns and equity markets selling off. The facility, which is likely to be supplied by the EU as well as the UK and Sweden, will be used to support both the domestic banking sector as well as to alleviate the government's financing needs. Whilst less immediately pressing, significant longer term issues still face the eurozone's weaker economies. Membership of the euro has essentially crystallised their lack of competitiveness compared to the European industrial powerhouses. Ultimately these economies are faced with a stark choice: leave the monetary union and devalue their currency at significant economic, financial and political cost, or attempt to regain competitiveness within the union by making painful efficiency gains.

Another important piece of news last week was the Chinese central bank's decision to increase the Reserve Requirement Ratio (RRR) by another 50 basis points. This is the second RRR increase within a month and the fifth of 2010. The action is another example of the Chinese government attempting to gently cool the economy, but is unliklely to be an adequate substitute to interest rate increases insofar as controlling inflation is concerned.

Turning to the markets, over the week equity returns were broadly flat whilst fixed income securities sold off somewhat. The stock markets have paused for consolidation following recent strong returns and, given the reemergence of concern regarding peripheral European states and a mixed week for macro economic data, a flat week if anything demonstrates a degree of resilience in markets. The S&P 500 was essentially flat with a return of 0.1% in US dollar terms. The UK drifted off as investors computed the amount of exposure of UK institutions to the Irish market. The return from the FTSE All share in Sterling terms was -0.8% over the week, but year to date the index has returned 10.5%, which is the largest gain for the majors over this period. Japan performed well over the past week, with a local currency return of 2.7%, however this market remains the laggard year to date, with a return of -2.4%. The MSCI World returned 0.0% in US dollar terms, to outperform its emerging counterpart, which returned -0.8%. Year to date, however the GEM index has provided nearly double the return of the developed markets, with a return of 14.7% compared to 7.7%. All major regions of the global government bond index were in negative territory last week, with local currency returns in the US of -0.5%, UK -1.0%, Europe -0.8% and Japan -0.3%. These local currency returns, coupled with a degree of US dollar stength, resulted in returns of -1.2% for the global government bond index when reported in US dollar terms. Investment grade paper also sold off but outperformed pure government securities, with the broad investment grade index returning -0.9%.

The week ahead is punctuated by Thanksgiving in the US on Thursday. Despite this there are plenty of data due to be published over the coming week, including important prints coming from the US, UK and Europe, which should provide further insight into the strength of the global economic recovery.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight / BCA Research. November 2010. Past performance is not indicative of future returns.

Returns to 19 November 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	0.1	1.5	8.9
United Kingdom	FTSE All Share TR	**GBP**	-0.8	1.1	10.5
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.6	1.0	6.7
Japan	Topix TR	**JPY**	2.7	7.2	-2.4
Australia	S&P/ASX 300 TR	**AUD**	-1.4	-0.1	-0.9
Global	MSCI World NR	**USD**	0.0	1.2	7.7
Global emerging markets	MSCI World Emerging markets TR	**USD**	-0.8	0.6	14.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.5	-1.2	7.5
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-1.0	-2.0	7.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.4	-1.1	9.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.7	-0.3	13.9
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-1.0	-1.9	6.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.8	-1.9	8.6
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.8	-1.6	2.4
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.5	-0.8	5.6
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.1	-1.2	15.8
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.3	-0.7	2.3
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.4	-0.9	4.8
Global Government bonds	JP Morgan Global GBI	**USD**	-1.2	-2.8	6.8
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.9	-2.1	5.1
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-0.5	-0.1	9.3
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.9	-2.0	14.2

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Returns to 19 November 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-2.0	-2.5	21.1
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-2.1	-3.0	0.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-1.3	-5.8	14.1
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-1.2	-3.5	-2.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-2.3	-0.6	13.3
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-2.1	-2.4	11.7
Currencies					
Euro		**USD**	-0.3	-1.7	-4.8
Sterling		**USD**	-1.2	-0.2	-1.2
Yen		**USD**	-1.3	-3.5	11.5
Australian Dollar		**USD**	-0.4	0.4	9.4
Rand		**USD**	-1.2	-0.9	4.9
Commodities					
Commodities	RICI TR	**USD**	-2.8	-1.3	6.1
Agricultural Commodities	RICI Agriculture TR	**USD**	-2.8	-3.7	18.9
Oil	Brent Crude Index (ICE) CR	**USD**	-4.8	1.4	8.9
Gold	Gold index	**USD**	-3.3	-0.3	19.3

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