Weekly Review

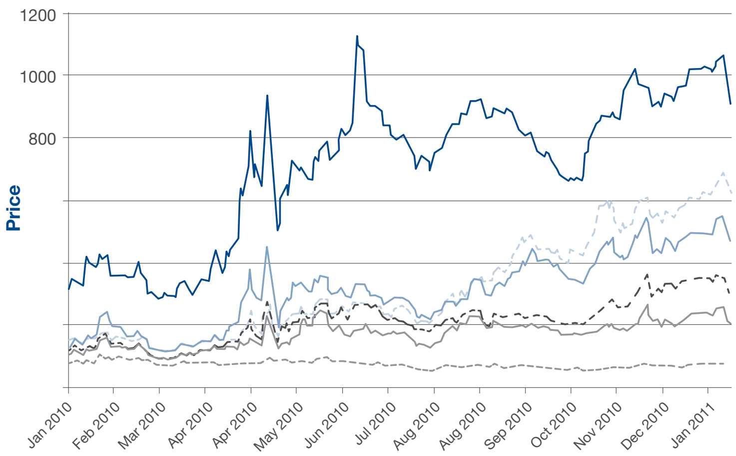
Week ending 14th January 2011

As was often the case in 2010, European sovereign debt issues dominated global investment news during the last week. Two Portuguese bond auctions were well oversubscribed, albeit at a significantly higher interest rate on the short-dated bonds than offered by the market during the previous round of capital raising. The ten year bonds saw a reduced interest rate and increased bid to cover ratio (from 2.1 to 3.2) which bodes well for the longer term outlook for Portugal (and other European nations on the literal and figurative periphery of the continent). A failed auction could have forced Portugal to apply for a rescue package from the European monetary authorities, which in itself would have done little to support the current bullish market sentiment.

The Portuguese bond auction was but a chapter in the European debt novel (some may describe it as a thriller) with the story not yet close to its conclusion. Deutsche Bank's European economists have titled the main article in their latest Focus Europe "Tip-toeing towards a bolder euro rescue package". This seems an apt description of what is emerging; the lack of an impending holy grail when the European finance ministers meet on Monday may disappoint the market which responded so well to last week's events. It has to be noted that the European Central Bank and European Union ministers had a very successful week broadcasting the fact that they would do what is required to prevent the sovereign situation from getting out of hand. A looming risk is that the strong (but currently fleeting) rally may be seen by the authorities as evidence that current measures are sufficient. It would surely be a mistake to believe this. The likelihood is that the regulatory and monetary authorities will either have to dramatically up the funds available for bail-out or have to replicate more 'ideal' weeks like the most recent one. Any kind of hesitation or retreat would be the start of a very quick journey back to May 2010 when concerns about Greece's financial health impeded any confidence that markets may have had at the time. The chart below shows how the cost of insurance against sovereign default (Credit Default Swaps) has oscillated over the last twelve months.

In markets last week global equities benefited from the good (for now) news out of Europe, as well as ever improving macro-economic data. The MSCI World Index returned 2.2% in US Dollar terms, with the American currency's weakness enhancing the pan European local currency returns of 1.7% in Europe and 0.4% in the United Kingdom. Emerging markets lagged their developed counterparts and delivered 1.1% for the week.

Bonds across the globe were broadly stronger in local currency terms last week, with the exception of the United Kingdom where gilts shed -0.8%. December's move in Treasury and Bund yields have pushed the valuation of US and German government debt into fair value territory; bonds further up on the risk curve still provide relatively more attractive rewards when adjusted for the additional risk that an investor picks up. Both US (+0.4%) and European (+0.6%) high yield bonds gained last week, and global convertible bonds (+1.3%) benefited from buoyant equity markets. Commodity indices continued their upward push from the end of 2010 (RICI Total Return +2.9%), and gold ended the week flat as some commentators expressed concerns that the yellow metal may start to lose some of its lustre.



Source: RMB Asset Management / Bloomberg / Lipper Hindsight. January 2011.

Returns to 14 January 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	1.7	2.9	2.9
United Kingdom	FTSE All Share TR	**GBP**	0.4	1.7	1.7
Continental Europe	MSCI Europe ex UK NR	**EUR**	1.7	2.5	2.5
Japan	Topix TR	**JPY**	0.4	3.5	3.5
Australia	S&P/ASX 300 TR	**AUD**	2.1	1.2	1.2
Global	MSCI World NR	**USD**	2.2	2.3	2.3
Global emerging markets	MSCI World Emerging markets TR	**USD**	1.1	0.8	0.8
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.1	-0.1	-0.1
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.2	0.5	0.5
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.1	0.1	0.1
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.4	1.4	1.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.8	-1.9	-1.9
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.3	-0.9	-0.9
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.0	0.0	0.0
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.7	-0.5	-0.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.6	1.7	1.7
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.2	-0.7	-0.7
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.5	0.5	0.5
Global Government bonds	JP Morgan Global GBI	**USD**	0.9	-1.1	-1.1
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.9	-0.7	-0.7
Global Convertible bonds	UBS Global Convertible Bond	**USD**	1.3	1.6	1.6
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.3	0.9	0.9

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. January 2011.

Returns to 14 January 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	1.3	0.6	0.6
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	0.8	0.9	0.9
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.1	-0.1	-0.1
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	2.0	2.0	2.0
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	0.3	1.9	1.9
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	1.3	1.2	1.2
Currencies					
Euro		**USD**	2.9	-0.4	-0.4
Sterling		**USD**	2.0	1.4	1.4
Yen		**USD**	0.2	-2.1	-2.1
Australian Dollar		**USD**	-1.0	-3.6	-3.6
Rand		**USD**	-2.5	-4.7	-4.7
Commodities					
Commodities	RICI TR	**USD**	2.9	0.7	0.7
Agricultural Commodities	RICI Agriculture TR	**USD**	2.4	-0.3	-0.3
Oil	Brent Crude Index (ICE) CR	**USD**	3.3	5.3	5.3
Gold	Gold index	**USD**	0.0	-3.1	-3.1

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