FP FINANCIAL PARTNERS

RMB ASSET MANAGEMENT

Weekly Review

Week ending 28th January 2011

The rioting and discontent in Egypt occupied much of the headlines last week. This comes barely a week after Tunisia's social unrest led to a new government being announced on 17 January. The Tunisian uprising came as a consequence of an unemployed man setting fire to himself because officials prevented him from selling vegetables on the streets of Sidi Bouzid without permission. The unrest in Tunisia came as something of a surprise as the state had been notable for its stability albeit with a strict government. Egypt's authoritarian leader, President Hosni Mubarak, has led the country for 30 years but this bout of unrest has come as public sentiment turned on the back of a perfect storm of corruption, undemocratic institutions, inflation and unemployment. This change required a catalyst, however, and this came in the form of the overthrowing of President Zine al-Abidine Ben Ali in Tunisia. The situation in Egypt has greater significance for both geopolitics and the capital markets than the precursor in Tunisia. This is due to a number of reasons including Egypt's population (the largest Arab state with 84.5 million inhabitants) as well as Egypt's relatively large GDP and its function as a major trade route between West and East. Egypt has two main security forces and it is likely that the allegiance of the army and the riot police hold the key to power. Presently it appears that both are siding with the incumbent, but interestingly the release of the army onto the streets in an attempt to back up the riot police actually led to cheers from protesters, believing that the army will show a degree of restraint which is increasingly absent from the heavily outnumbered riot police. So far the army has been demonstrating good will towards the protesters, but if the ruling regime's stance were to stiffen the amount of hardware on the streets of Cairo would result in significant casualties. If the riots continue it is possible that senior members of the military will urge President Mubarak to stand down, which may reduce the risk of bloodshed. Another source of risk for the country is the economic impact of the unrest. Most shops and businesses remain closed in the capital, whilst Nissan has halted production in the country for a week and has urged non-Egyptian employees to leave the country. This resonates with another risk to the country's economy, namely the potential for reductions in tourism. Presently this accounts for approximately 5% of GDP and the continuation of the disturbance would see the flow of tourists dry up. Indeed, the US, Japan and China are preparing to evacuate their citizens.

Whilst this disturbance is notable, its significance is greater than merely its impact to the world on a GDP weighted basis. This is because Egypt is a pivotal country in the Middle East in both a political sense and an economic sense. Egypt is the home of the Suez Canal, which is the route taken by 7.5% of the globe's sea trade. What is also notable is that the cause of these protests, aside from the government regime, is symptomatic of the imbalances facing the global economy presently. As the funds from various initiatives such as Quantitative Easing flow into the global economy, a consequence of the excess liquidity must surely be the risk of inflation. This may not be an immediate concern in the developed world, where capacity is not constrained following the financial crisis, but in the developing world, lauded for their relative immunity to the recession, capacity constraints result in excess liquidity risking inflationary pressures. A further concern is the risk of contagion emanating from Egypt to other states. It is possible that other populations will be watching Tunisia's result with envy. If Egypt's protests create the same result, undemocratic governments across the region will become more anxious.

The markets were mixed last week, with the US and UK down a touch in local currency terms whilst Europe and Japan gained. The MSCI World Index was flat. Understandably, the Emerging Markets were weighed upon by the disruption in Egypt, with the MSCI GEM Index returning -0.9% for the week. Year to date the GEM Index has also lagged the developed markets, with returns of 1.8% compared to –2.1% respectively. Government paper posted positive returns, with the JPM GBI adding 0.3% in US Dollar terms. The commodity markets remained relatively strong, with the Rogers Broad Commodity Index adding 0.6%. Gold was softer, however, with a return of -1.8%, bringing its year to date return to -6.5% in US Dollars.

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

Returns to 28 January 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-0.5	1.6	1.6
United Kingdom	FTSE All Share TR	**GBP**	-0.2	-0.2	-0.2
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.3	3.0	3.0
Japan	Topix TR	**JPY**	1.0	2.3	2.3
Australia	S&P/ASX 300 TR	**AUD**	0.4	0.6	0.6
Global	MSCI World NR	**USD**	0.0	1.8	1.8
Global emerging markets	MSCI World Emerging markets TR	**USD**	-0.9	-2.1	-2.1
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.5	0.2	0.2
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.5	0.2	0.2
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.6	0.5	0.5
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.6	2.2	2.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.3	-2.0	-2.0
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.4	-0.6	-0.6
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.5	-0.7	-0.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.1	-0.5	-0.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.3	2.5	2.5
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1	-0.6	-0.6
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.8	0.9	0.9
Global Government bonds	JP Morgan Global GBI	**USD**	0.3	-0.5	-0.5
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.2	-0.1	-0.1
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.4	1.6	1.6
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-1.0	-0.9	-0.9

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

Returns to 28 January 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	1.5	1.8	1.8
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	0.4	-0.3	-0.3
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.2	-1.1	-1.1
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.9	2.9	2.9
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-0.4	0.4	0.4
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	0.5	0.9	0.9
Currencies					
Euro		**USD**	0.3	1.6	1.6
Sterling		**USD**	-0.9	1.2	1.2
Yen		**USD**	0.5	-1.4	-1.4
Australian Dollar		**USD**	0.3	-3.1	-3.1
Rand		**USD**	-1.4	-7.8	-7.8
Commodities					
Commodities	RICI TR	**USD**	0.6	1.3	1.3
Agricultural Commodities	RICI Agriculture TR	**USD**	0.8	4.2	4.2
Oil	Brent Crude Index (ICE) CR	**USD**	0.9	4.9	4.9
Gold	Gold index	**USD**	-1.8	-6.5	-6.5

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