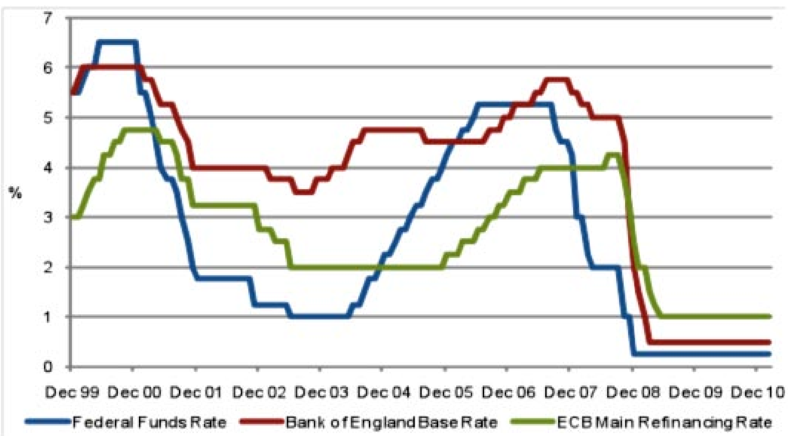
Weekly Review

Week ending 4th March 2011

We had planned to focus this edition on the outlook for interest rates in Europe, but with tensions in the Middle East rising a notch higher over the weekend, it is worth starting there. As the price of WTI Cushing oil moves above $104 a barrel, contagion, of the type reflected in these high prices, is now discounted at a lower rate than a week previous. Amid reports of rebels being attacked by helicopter gunships on the Libyan coast, authorities in the Kingdom of Saudi Arabia, who preside over the world's largest known reserves of oil, announced a zero tolerance approach to public disorder in response to a series of protests planned for the end of the coming week: as ever, we wait and watch for what happens next.

In Europe, the ECB looks set to raise interest rates at its next meeting in April, following comments made by Bank President Jean-Claude Trichet on Wednesday of the week just gone. Market participants responded to the hawkish undertones by building in expectations of a quarter point hike in official rates from their current floor of 1%. Mr Trichet's comments came on the back of rising inflation figures in the monetary union as a result of pressures affecting oil and food markets. No similar plans appear to be on the agenda in the UK or the US, although the UK may be moving closer to a rate increase based on the minutes of the Monetary Policy Committee's (MPC) last meeting. As the graph alongside shows, the global nature of the challenges facing economies over the past two years has led to a high degree of coordination between policy makers, making the prospect of a fresh divergence in interest rate policy more significant. Questions are being asked as to the extent to which austerity packages have been factored into the ECB's forecast of the most likely path for inflation, twinned with the structural impact of private deleveraging. The latter may represent a fundamental change in consumer behaviour, implying that the base rate appropriate for yesterday's 'normal' economic conditions is now too high. The US is currently standing its ground, emphasising a less dramatic trend in core inflation as opposed to headline rates. This may yet prove a risky strategy as breakeven inflation rates implied by TIPS continue to edge higher, pointing towards a gradual dislocation of market participants well-anchored expectations for future inflation. With this in mind, it is clear that the ECB sees a proactive stance as being more appropriate on the balance of probabilities. High and protracted inflation would certainly round-off a spectacularly inauspicious period for policy makers around the world, another nail in the coffin of today's moribund social contract, and so perhaps the ECB is right. Ben Bernanke of the US Federal Reserve has come out to say that the current pressures on inflation are likely to be temporary, and, unless one is privy to information unbeknown to most, this would still appear to be accurate on the balance of probabilities. Hence, it may be that the US is in fact correct: we are delicately poised.

Mr Trichet's comments saw the euro move higher against the US Dollar and Sterling, whilst equities on the continent fell by 0.8% following initial gains in Germany and France. Elsewhere, both bonds and equities in emerging markets outpaced their developed counterparts, up by 0.8% and 3.6% respectively. European Government bonds fell by 0.5%, alongside US Treasuries which were also in negative territory, whilst UK Gilts were flat. US TIPS gained 0.4% over the period, whilst the big winners were UK property securities and agricultural commodities with gains of 3.0% in Sterling and US Dollar terms respectively.



Source: *RMB Asset Management / Bloomberg / Lipper Hindsight. March 2011.*

Returns to 4 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	0.9	0.3	6.1
United Kingdom	FTSE All Share TR	**GBP**	0.1	0.2	2.0
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.8	-1.7	3.0
Japan	Topix TR	**JPY**	1.5	0.5	6.4
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	2.6	2.3	0.4
Global	MSCI World NR	**USD**	0.6	-0.2	5.6
Global emerging markets	MSCI World Emerging Markets TR	**USD**	3.6	2.8	-0.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.2	-0.3	-0.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.4	0.5	1.5
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.1	-0.4	0.6
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.3	0.2	3.8
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.0	-0.1	-1.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.1	0.0	0.4
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.5	-0.5	-1.1
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.5	-0.5	-0.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.2	0.1	4.4
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.2	-0.2	-0.9
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.1	-0.2	0.9
Global Government bonds	JP Morgan Global GBI	**USD**	0.1	-0.1	0.1
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.3	0.0	0.8
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.6	0.3	4.2
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.8	0.6	0.1

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

Returns to 4 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-1.2	-3.4	4.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	3.0	1.3	8.6
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	1.8	0.6	2.0
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	1.3	0.8	6.4
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	1.5	0.6	-0.4
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	0.7	-1.0	2.9
Currencies					
Euro		**USD**	1.8	1.3	4.3
Sterling		**USD**	1.2	0.0	3.9
Yen		**USD**	-0.8	-0.5	-1.5
Australian Dollar		**USD**	-0.4	-0.6	-1.3
Rand		**USD**	1.7	0.7	-4.0
Commodities					
Commodities	RICI TR	**USD**	2.6	2.3	9.6
Agricultural Commodities	RICI Agriculture TR	**USD**	3.0	2.3	9.7
Oil	Brent Crude Index (ICE) CR	**USD**	1.3	2.7	23.2
Gold	Gold index	**USD**	1.8	1.1	1.1

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

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