Weekly Review

Week ending 11th March 2011

The past week played witness to a tumultuous set of events. Investors tried to make sense of a wide range of news, from protests in the Kingdom of Saudi Arabia to the downgrade of Spanish sovereign debt by the credit ratings agency Moody's. That is to say nothing of the terrifying earthquake that hit Japan on Friday and the ensuing humanitarian crisis. Whilst markets seemed fairly immune to events in the region on Friday, at the time of writing the Topix Index has finished Monday morning's session down 7.5%.

Starting in Japan, at 14:46 local time on Friday an earthquake measuring 8.9 on the Richter scale struck 81 miles off the coast of Sendai, northeast of the capital Tokyo. The initial shockwaves levelled buildings in several cities and brought transport links to a halt. These tremors were followed by a tidal wave measuring seven metres at its height, that created a lake of debris up to 12 miles inland of Japan's northern coast. The earthquake struck less than half an hour before the close of the market, and in those moments the real world drama became distinct from our 'perfect' market paradigm, as market prices appeared to lag the unfolding news. On Saturday afternoon an explosion at the Fukushima 1 nuclear reactor saw part of the complex's roof blown away. Whilst downplaying the severity of the explosion, Japanese officials acknowledged that they are experiencing difficulties in trying to cool many of the reactors in their east coast facilities. Initial assessments of the earthquake's effect on the Japanese economy have focused on a comparison with events in Kobe in 1995. On this basis, further equity market losses may be limited in the short term. The key factors for investors to focus on going forwards will be the extent of government stimulus, power shortages affecting key industrial regions and demand creation through reconstruction.

Moving on to the Middle East, in Saudi Arabia Friday's so-called 'day of rage' passed with little incidence, although reports of police firing rubber bullets to disband protesters in the oil-rich district of Qatif during the week will continue to preoccupy investors, given the country's de facto position at the head of the global oil market. Genuine demands for greater participation, transparency and access to the country's wealth by the people of Saudi Arabia are reasonable and merit an audience. At the same time, in what is one of the world's most finely balanced societies, a stark choice is commonly presented between secular totalitarianism and more participatory governance giving way, inevitably many argue, to religious extremism. Unrest in Egypt continues unabated, as the new government struggles to contend with what it considers to be coordinated efforts to undermine stability in the country, led by supporters of the old regime. Groups have moved quickly to exploit the breakdown in law and order created by the interior ministry's decision to disband the police force. Security of life, property and the economy is an essential public good, and in their absence the country is struggling to get back to normality. In Libya, Muammar Gadaffi grimly fights on for control of the country. The weekend saw government forces take back more of the gains made by the rebels in the early weeks of the conflict. Political posturing came to the fore last week as France moved to officially recognise the Libyan National Council, one of the leading opposition groups, in a unilateral gesture that went unreciprocated by other UN members. Nothing in the world of politics and governance is ever simple, but history may yet show that consideration and due process held the rest of the world back as a despot reclaimed his country.

Finally, Moody's took the decision to downgrade its rating of Spanish sovereign debt by one notch to Aa2, based on its assessment of the capital requirements of the Spanish banking sector. Investors responded to the news by reducing their holdings of Spanish debt, with their selling activity pushing yields on 10 year government bonds beyond 550bps during Thursday, before ending the week lower at 543bps. Spain has, for a long time, been seen as a key figure in the unfolding debt drama, a potential bridge between the so-called peripheral economies and the core. The euro fell on the back of the news, down 1.1% versus the US Dollar over week. Elsewhere equity markets receded across the regions whilst investment grade bonds gained, in what was a typical risk off swing that also brought down the price of most commodities.

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

Returns to 11 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-1.2	-1.7	4.0
United Kingdom	FTSE All Share TR	**GBP**	-2.5	-2.4	-0.5
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.9	-3.6	1.0
Japan	Topix TR	**JPY**	-4.2	-3.8	1.9
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	-2.9	-0.6	-2.5
Global	MSCI World NR	**USD**	-2.4	-2.6	3.1
Global emerging markets	MSCI World Emerging Markets TR	**USD**	-2.6	0.1	-3.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.5	0.2	0.1
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.6	1.1	2.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	0.1	1.1
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.2	0.0	3.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.7	0.6	-0.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.5	0.5	0.9
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.4	-0.2	-0.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.2	-0.3	0.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.4	-0.3	4.1
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.3	0.1	-0.7
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.6	0.3	1.5
Global Government bonds	JP Morgan Global GBI	**USD**	0.2	0.1	0.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.1	0.1	0.9
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-1.3	-1.0	2.9
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.4	1.0	0.6

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

Returns to 11 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	0.1	-3.3	4.4
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-2.7	-1.4	5.7
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-1.1	-0.6	0.9
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-2.7	-1.9	3.6
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-2.6	-2.0	-2.9
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-1.6	-2.6	1.2
Currencies					
Euro		**USD**	-1.1	0.2	3.2
Sterling		**USD**	-1.5	-1.5	2.3
Yen		**USD**	0.7	0.1	-0.9
Australian Dollar		**USD**	-0.6	-1.2	-1.9
Rand		**USD**	-0.2	0.5	-4.2
Commodities					
Commodities	RICI TR	**USD**	-4.1	-1.1	6.0
Agricultural Commodities	RICI Agriculture TR	**USD**	-6.4	-4.0	3.0
Oil	Brent Crude Index (ICE) CR	**USD**	-0.2	2.5	23.0
Gold	Gold index	**USD**	-1.1	0.0	0.0

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