Weekly Review

Week ending 18th March 2011

News last week was dominated by the continuation of events in Japan, with particular focus on the Fukushima nuclear reactors, alongside increased international intervention in Libya, which culminated in the bombardment of government installations. Markets continue to wait on the outcome of events in the Fukushima region of Japan. Last Monday (11th March) the Japanese stock market fell by 7.5%, followed by a further 9.5% the next day, before rebounding by 6.6% on Wednesday. With the aggregate value of shares in the economy having declined by nearly 10% since the start of the crisis, Japanese equities may represent a buying opportunity for investors at current levels. Short term volatility, however, will be determined in large part by what happens in the coming weeks at the Fukushima plants. In the absence of direct access to the latest news from the facilities, and in light of the Japanese government's past record on disclosures regarding nuclear power generation, it is difficult to discriminate between any number of possible outcomes. Markets remain driven to an extent by the latest news flow. As valuation driven investors, we prefer to invest on a longer term basis that is guided by underlying economic fundamentals. Technicians at the site have managed to lay a power cable in the past few days, although it is as yet unclear whether what is left of the plant's infrastructure will support efforts to restart the cooling system. Countries have, for the most part, stepped up efforts to evacuate their nationals from Japan, which may be a worrying sign for investors if one believes that government is privy to better information than the average market participant. Radiation, albeit at levels deemed non-hazardous to humans, has now been detected in tap water in Tokyo, prompting calls for a ban on food from the Fukushima region. Volunteers are being forced to work in ever shortening shifts, as radiation levels at the site rise to dangerous levels, whilst enduring the effects of significant aftershocks.

In the Middle East, Muammar Gaddafi violated his own ceasefire with remarkable speed, prompting combined military forces from France, Italy, Canada, Britain and the US to instigate air and naval attacks on loyalist forces and installations in order to establish a no fly zone over the country. The US joined France and the UK late last week in requesting the UN Security Council to approve limited military action against the dictator. Western powers have been careful to move only with the support of regional bodies such as the Arab League, although some commentators have bemoaned their lack of speed as a result. As at the time of writing, certain members of the Arab League have already distanced themselves from the weekend's actions, suggesting that ground attacks go beyond the imposition of a no fly zone. The rhetoric used at the outset of this latest Western intervention in the Middle East has been couched in very specific language, with British Prime Minister David Cameron speaking in terms of legality and righteousness. The Libyan defence ministry raised the possibility of retaliation against both civilian and military targets in the Mediterranean, prompting fears of the regime's return to the violence of the past. Elsewhere in the region, Bahrain and Yemen both witnessed further unrest last week, threatening a general breakdown of Sunni-Shi'a relations.

In the currency markets, whilst the yen may have hit a post war high versus the US Dollar during trading last week, it remains broadly in line with its long term average on a trade weighted basis. The upward trajectory of the Japanese currency has been attributed to the buying activities of life insurers and institutional investors repatriating assets, although Japanese officials were quick to play down this theory, in a move that was correctly interpreted as paving the way for intervention in the foreign exchange market. World finance ministers duly held a call on Thursday evening US time with regards to the yen, and subsequently the Group of Seven have stated their intention to act in unison to weaken the Japanese currency, which at present levels is deemed to be detrimental to the prospects of Japanese exporters.

Over the week risk assets declined, with the MSCI World Index falling by -2.1% whilst emerging markets outperformed despite negative returns of -0.9%. Sovereign debt conversely gained 1.3% as investors risk appetite subsided.

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

Returns to 18 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-1.9	-3.6	2.0
United Kingdom	FTSE All Share TR	**GBP**	-1.6	-4.0	-2.2
Continental Europe	MSCI Europe ex UK NR	**EUR**	-2.8	-6.3	-1.8
Japan	Topix TR	**JPY**	-9.3	-12.7	-7.6
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	-1.7	-2.3	-4.2
Global	MSCI World NR	**USD**	-2.1	-4.7	0.9
Global emerging markets	MSCI World Emerging Markets TR	**USD**	-0.9	-0.7	-4.3
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.6	0.8	0.7
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	1.0	2.0	3.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	0.5	1.5
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.1	-0.1	3.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.8	1.4	0.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.6	1.0	1.5
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.5	0.3	-0.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.0	-0.3	0.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.4	-0.7	3.7
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1	0.2	-0.5
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.5	0.8	2.0
Global Government bonds	JP Morgan Global GBI	**USD**	1.3	1.4	1.7
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.2	1.3	2.1
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-0.3	-1.3	2.6
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.0	1.0	0.6

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

Returns to 18 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-1.4	-4.6	2.9
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-1.5	-2.9	4.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-1.1	-1.7	-0.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-1.4	-3.3	2.1
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-4.2	-6.1	-7.0
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-2.2	-4.7	-1.0
Currencies					
Euro		**USD**	2.2	2.4	5.4
Sterling		**USD**	1.1	-0.5	3.4
Yen		**USD**	0.8	1.0	0.0
Australian Dollar		**USD**	-1.1	-2.3	-2.9
Rand		**USD**	-1.2	-0.7	-5.4
Commodities					
Commodities	RICI TR	**USD**	0.5	-0.6	6.5
Agricultural Commodities	RICI Agriculture TR	**USD**	0.2	-3.8	3.2
Oil	Brent Crude Index (ICE) CR	**USD**	-1.0	1.4	21.7
Gold	Gold index	**USD**	0.6	0.6	0.6

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