Weekly Review

Week ending 25th March 2011

The nuclear crisis in Japan continues to develop, with positive reports followed just as quickly by negative news. Levels of radioactivity in the sea around the Fukushima 1 site have reached 1000 times the legal limit, prompting the extension of the exclusion zone around the area and the introduction of controls on foodstuffs from the region. Initial assessments of the impact of the 12th March earthquake may have underestimated the effect of power shortages, which have extended the economic implications far beyond the original disaster zone. Indeed, in some instances the resultant blackouts have constrained production to unprofitable levels, prompting firms to halt operations entirely. This development is likely to have international repercussions given Japan's pre-eminence in the global supply chain. The suggestion that reconstruction could prompt a virtuous cycle in the wider economy will depend in part on Japanese consumers overcoming their natural propensity to save.

Renewed concerns over sovereign debt in Europe dominated headlines last week, focusing on events in Portugal where Prime Minister José Sócrates proffered his resignation late on Wednesday night following the rejection of his government's programme of austerity measures. On Thursday evening, Standards and Poor's downgraded the country's credit rating by two notches to BBB, whilst also leaving the country on negative credit watch. The market gave a muted response to the news, seemingly confident that the European Financial Stability Facility (EFSF) will provide the necessary refinancing support. This expectation is predicated on the perceived risk of contagion between EU members, caused by the significant crossholdings of Eurozone debt between their respective banking sectors. Yields on Portuguese five year debt rose to 8% last week in response to the economic and political uncertainty, whilst banks with large exposure to peripheral European sovereigns reduced their holdings in anticipation of further stress tests. Whilst staunchly denying any need for a rescue package, such a deal looks increasingly likely for the country.

In the UK, Chancellor George Osborne produced a fiscally neutral budget. Concessions to motorists, in the form of the postponement of plans to raise the duty on fuel, were funded by a surprise raid on profits from North Sea oil and gas companies. There were also pledges to speed up the timetable for lowering the main rate of corporation tax, and to simplify the tax system in order to promote small businesses. Holders of UK gilts remain content at present to accept a negative real return, suggesting either that inflation pressures are expected to be temporary, or that investors are reluctant to allocate their funds elsewhere.

The so-called 'Arab Spring' intensified last week in Syria. President Basher al-Assad's security forces responded violently to protests in the Deraa province, with reports of shootings and beatings. Meanwhile in Libya, rebels began to make gains along the eastern coast, benefitting from the reduction in Muammar Gaddafi's air capabilities following successful attacks by coalition forces. The composition of the rebels is diverse, with some fringe groups being linked to terrorist organisations such as Al-Qaeda. As ever, Western governments must tread a fine line with regards to their allegiances in the region. Investors saw few significant implications in the week's events, although oil continued to edge higher with Brent Crude increasing by $2 to $116 per barrel.

From a global perspective, last week's recovery in equity markets, twinned with gold reaching an all time high, suggest that there is excess liquidity in the system. Global equities as measured by the MSCI World index gained 3.0%, led by the Asia Pacific region excluding Japan. Emerging markets returned the higher 4.2% over the period. Government bonds generally lost ground, other than in Japan where support came via the central bank's ongoing programme of purchases. Investors again sought out 'real' or physical investments, with commodities, oil and gold all producing gains. Property indices outside of the US returned in excess of 2% over the week in local currency terms, led by Asia.

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

Returns to 25 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	2.7	-0.9	4.8
United Kingdom	FTSE All Share TR	**GBP**	3.1	-0.9	0.9
Continental Europe	MSCI Europe ex UK NR	**EUR**	3.5	-3.0	1.6
Japan	Topix TR	**JPY**	3.3	-9.9	-4.6
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	4.7	2.3	0.3
Global	MSCI World NR	**USD**	3.0	-1.8	4.0
Global emerging markets	MSCI World Emerging Markets TR	**USD**	4.2	3.4	-0.3
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.8	0.8	0.7
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-1.2	2.0	3.1
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.7	0.5	1.5
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.3	-0.1	3.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.6	1.4	0.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.4	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**	0.1	-0.3	0.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.3	-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**	-0.1	0.8	2.0
Global Government bonds	JP Morgan Global GBI	**USD**	-0.4	1.4	1.7
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.4	1.3	2.1
Global Convertible bonds	UBS Global Convertible Bond	**USD**	1.4	-1.3	2.6
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.2	1.0	0.6

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

Returns to 25 March 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	0.6	-4.0	3.6
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	2.7	-0.2	7.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.8	1.1	2.6
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	2.2	-1.2	4.3
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	3.3	-3.1	-4.0
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	2.0	-2.8	1.0
Currencies					
Euro		**USD**	0.0	2.4	5.4
Sterling		**USD**	-0.6	-1.1	2.7
Yen		**USD**	0.0	1.0	0.0
Australian Dollar		**USD**	3.4	1.0	0.2
Rand		**USD**	2.2	1.4	-3.3
Commodities					
Commodities	RICI TR	**USD**	2.2	1.6	8.9
Agricultural Commodities	RICI Agriculture TR	**USD**	1.4	-2.5	4.6
Oil	Brent Crude Index (ICE) CR	**USD**	1.6	3.1	23.7
Gold	Gold index	**USD**	1.1	1.8	1.7

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