



Weekly Review

Week ending 15th April 2011

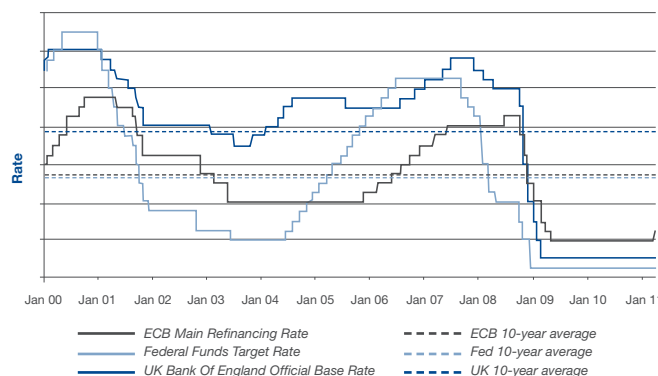
A timetable for policy normalisation by central banks in the US, UK and Europe is a medium term concern for markets. To illustrate this point, the graph below shows the current level of central bank interest rates in these three regions compared to their 10-year averages. Current rates are on average 2.4% below their historical levels, with mounting inflation pressures adding weight to the case for remedial hikes. The European Central Bank duly decided to increase its main refinancing rate at the start of April, whilst the former two authorities have so far kept rates on hold in mind of the implications for growth of any upward move. In the UK, policymakers received some good news last week as headline inflation (as measured by the Consumer Price Index, CPI) fell by 40 basis points to 4.0%, lowering the pressure on the Bank of England to raise its base rate at a time when the recovery still appears weak. The UK Retail Price Index (RPI), an alternative measure of inflation, remains at above 5%. The last time this was the case was in July 1991 when 5-year Gilt yields were at 10.15%, compared to just 3.81% today.

The People's Bank of China moved again over the weekend to raise the Reserve Requirement Rate for the country's banks, the fourth such hike since the start of the year, aimed at combating continued rises in the aggregate price level. One of the main reasons behind rising inflation globally has been the well publicised upward trajectory of commodity prices, which have risen both quickly and early-on in the current cycle when considered relative to history. Commodity prices underwent a mild correction last week, prompted by downgrades to the global growth outlook by the IMF, as well as Goldman Sachs' assertion that the cycle has reached maturity. The broad commodities index fell by -2.5% during the week, whilst agricultural commodities lost -3.5%. Both oil and gold were approximately flat over the period.

Global equities lost ground last week, with the MSCI World index falling by -1.0% compared to -2.0% for emerging markets. In contrast, broad investment grade debt advanced by 0.9%, with the government component of that index gaining 1.2%. This so-called 'risk-off' rotation was prompted in part by weak data in the US, where President Obama revealed plans to reduce net government spending by USD 4 trillion over 12 years through a combination of tax hikes and spending cuts. Meanwhile the country's 2011 growth forecast was downgraded from 3.0% to 2.8% by the IMF. Small business confidence in the US has fallen to a five-month low, whilst the TIPP consumer sentiment index is currently at near three year lows. In Japan, authorities raised the severity of the country's nuclear crisis to seven (from five) on the International Nuclear Event Series (INES), to place it on a par with the Chernobyl disaster in 1986. The IMF similarly downgraded Japan's growth outlook to 1.4% from 1.6% last week, prompting a further -1.4% decline in the Topix index and bringing its year to date return to -5.3% in yen terms.

In Europe, further steps are being sought to deal with Greece's debt burden, raising the prospect of some kind of restructuring of outstanding obligations. This eventuality was discounted at a lower rate following the strong election result of Finland's anti-euro True Finns party over the weekend, in the first sign of electorates acting to force the issue. Meanwhile Spain's Prime Minister Jose Luis Rodriguez Zapatero has sought support from Asian sovereign wealth funds in recapitalising the country's banking sector, although the terms of any deal are as yet unknown.

Please note that due to the Easter bank holiday, the next weekly review will be Tuesday 3rd of May.



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

Returns to 15 April 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	USD	-0.6	-0.4	5.3
United Kingdom	FTSE All Share TR	GBP	-0.8	1.5	2.5
Continental Europe	MSCI Europe ex UK NR	EUR	-1.4	0.4	2.3
Japan	Topix TR	JPY	-1.4	-3.2	-5.3
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	-1.1	2.3	5.1
Global	MSCI World NR	USD	-1.0	0.3	5.1
Global emerging markets	MSCI World Emerging Markets TR	USD	-2.0	1.1	3.1
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.9	0.5	0.3
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.2	1.7	3.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.0	0.8	1.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.1	0.9	4.8
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.6	0.9	0.1
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	1.4	1.3	2.2
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2	0.0	-1.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.4	0.4	0.4
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	-0.1	1.3	5.4
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2	-0.2	-0.8
Australian Government	JP Morgan Australia GBI TR	AUD	0.3	-0.2	1.6
Global Government bonds	JP Morgan Global GBI	USD	1.2	0.6	1.2
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.9	0.8	2.1
Global Convertible bonds	UBS Global Convertible Bond	USD	-0.4	0.4	4.9
Emerging Market Bonds	JP Morgan EMBI +	USD	0.0	0.4	1.2

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Returns to 15 April 2011

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	USD	2.6	0.8	7.1
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	1.6	1.5	7.4
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-0.5	-0.8	2.4
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	-2.4	-0.8	2.7
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-0.8	1.4	-2.3
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	0.7	1.0	3.3
Currencies					
Euro		USD	-0.1	1.6	7.5
Sterling		USD	-0.5	1.7	4.1
Yen		USD	2.2	-0.4	-2.5
Australian Dollar		USD	0.1	2.0	2.9
Rand		USD	-3.0	-1.3	-3.4
Commodities					
Commodities	RICI TR	USD	-2.5	1.3	11.1
Agricultural Commodities	RICI Agriculture TR	USD	-3.5	-1.9	3.5
Oil	Brent Crude Index (ICE) CR	USD	0.0	6.3	30.9
Gold	Gold index	USD	0.5	2.6	4.6

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