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Newsflash

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March saw one of the biggest recoveries in the equity markets for a long time. Both the S&P 500 and Dow Jones Industrial Average returned over 20% from their lows on the 6th of March, posting their best four week performances since 1933. As has become customary over the last couple of months the US Dollar lost ground as equity markets rallied, underpinning the Dollar's role as a safe haven currency. Similarly the gold price has retreated from its highs in February (around USD990 per fine oz) to below the USD900 level early in April.

In spite of the strong rally equity market performance (as measured by the S&P500 total return) is still similar to what was evident after the large falls in 1929. The graph below shows the four worst bear markets in history, and how they have performed in the months from their peaks:

The main central banks around the world all met during the end of March and early in April, and either kept their rates unchanged at the current low levels, or, as was the case in the Eurozone and Australia, reduced it by another 25 basis points.

Developed market equity indices across the globe posted positive returns (in local currency terms) led by the S&P 500 which was up 8.7%. In the United Kingdom the FTSE All Share added 3.3%, while European and Japanese equities gained 3.8% and 3.4% respectively. Global emerging markets outperformed their more established counterparts in adding 14.4% for the month, taking them into positive territory for 2009 (+0.9%). Despite the recent rally global equities are still in the red for the year to date, with the MSCI World Index returning -11.9% for the first quarter.

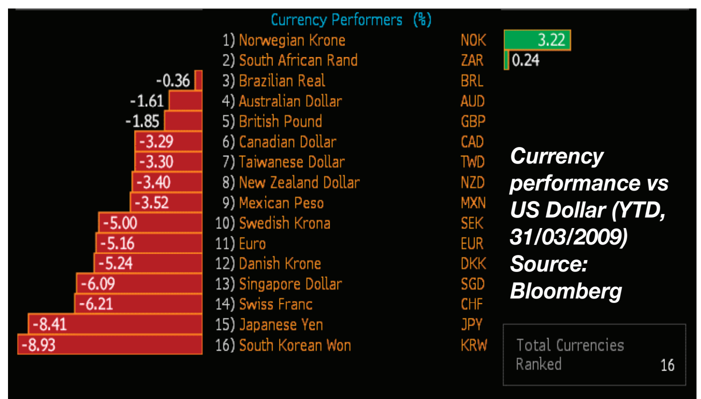
Bonds at opposite ends of the risk spectrum fared better than those in the middle with both government bonds and high yield issues ending the month with positive returns, whereas investment grade corporate bonds remained flat or even lost a bit of value. US Treasuries edged up by 1.8% for the month, with UK gilts adding around 1.7% in Sterling terms. Euro government paper was up around 1.3%.

The spread of US high yield bonds' yield over US treasuries contracted towards the end of March and this translated into a 2.7% gain for the month, and 6.6% for the year to date. The European high yield markets have not shown the same signs of recovery as their US counterparts and only added 1.3% for the month. The disappointing performance over the first quarter came from investment grade non-government issues which in the US lost -1.9% in the first three months. In the UK these bonds performed even worse in returning -5.1% over the first quarter. Viewpoint would expect some kind of recovery in these bonds if confidence in the equity market continues to return.

Convertible bonds added 5.2% for the month, supported by strong equity markets and stable bond returns.

Property securities ended the quarter as the worst performing asset class under review, with both US and UK indices down in the region of -30%. This comes off the back of falls of -38% (US) and -46% (UK) in 2008, which make these assets look very cheap from a fundamental point of view. Asian real estate has held up better during this quarter, but it is probably because it had most of its losses in 2008, when it was down -52.5%. Due to the liquidity provided by property securities over direct property investments, and the subsequent distressed selling that took place in the liquid issues, there is probably a little more value in the former when compared to the latter, which is not valued that often.

Apart from the Japanese Yen all currencies rallied against the greenback during March. Of the major currencies the Euro was particularly strong against the US Dollar, gaining 4.5% over the month. Currencies of countries with commodity focused economies (including Australia, up 8.8% and South Africa, up 5.6%) started to



Currency performance vs US Dollar (YTD, 31/03/2009) Source: Bloomberg

claw back some of the depreciation of 2008 and early 2009, but most currencies are still in the red against the Dollar for the year to date. The US currency will probably start to show some signs of weakness once quantitative easing, spearheaded by the US Federal Reserve, starts to have an effect in the States and inflation worries appear on the horizon again.

The oil price jumped during the month with the Brent Crude Index gaining close to 10%, and the oil price hovering around $50 at the time of writing. Commodities in general had a good month (up 5%) with the agricultural sector matching metals and energy by adding 5.1%. Gold lost some of it shine by retracting around -3.7%, but was still up for the year (+6.4%).

The first quarter was marked by losses across most asset classes, the exception being high yield bonds and pockets of the commodity market. This means that a number of assets are looking more attractive now than they did on New Year's Day 2009. The bad news may not be over yet, but the market has certainly priced a lot of it in when considering current valuations.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. April 2009

Asset Class Performances

Asset Class/Region	Index	Currency	Mar 2009	YTD 2009
Equities				
United States	S&P 500 NR	USD	8.7	-11.2
United Kingdom	FTSE All Share TR	GBP	3.3	-9.1
Continental Europe	MSCI Europe ex UK NR	EUR	3.8	-12.3
Japan	Topix TR	JPY	3.4	-8.8
Global	MSCI World NR	USD	7.5	-11.9
Global emerging markets	MSCI World Emerging Markets TR	USD	14.4	0.9
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	1.8	-1.9
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	5.9	4.7
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.4	-1.9
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	2.7	6.6
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.7	-1.7
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	-1.1	-5.1
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.3	0.8
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.3	-0.6
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	1.3	7.3
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.2	-0.6
Global Government bonds	JP Morgan Global GBI	USD	2.3	-4.7
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	2.4	-2.9
Global Convertible bonds	UBS Global Convertible Bond	USD	5.2	1.5
Property				
US Property securities	MSCI US REIT TR	USD	3.4	-33.1
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-0.2	-29.7
Europe ex UK Property securities	FTSE EPRA/NAREIT Europe ex UK TR	EUR	-2.6	-10.1
Asia Property securities	FTSE EPRA/NAREIT Asia TR	USD	7.8	-9.3

Source: Bloomberg April 2009

Asset Class/Region	Index	Currency	Mar 2009	YTD 2009
Currencies				
Euro		USD	4.5	-4.5
Sterling		USD	0.6	-0.3
Yen		USD	-0.9	-8.2
Australian Dollar		USD	8.8	-0.3
Rand		USD	5.6	-2.8
Commodities				
Commodities $	RICI TR	USD	5.0	-4.2
Agricultural Commodities $	RICI Agriculture TR	USD	5.1	-6.0
Oil $	Brent Crude Index (ICE) CR	USD	9.4	26.1
Gold $	Gold index	USD	-3.7	6.4
Interest rates	**Last meeting**		**Current rate**	**Last change**
United States	18 March 2009	USD	0.25%	0.00%
United Kingdom	9 April 2009	GBP	0.50%	0.00%
Eurozone	2 April 2009	EUR	1.25%	-0.25%
Japan	7 April 2009	JPY	0.10%	0.00%
Australia	8 April 2009	AUD	3.00%	-0.25%
South Africa	24 March 2009	ZAR	9.50%	-1.00%

Source: Bloomberg April 2009

FOCUS:

In our market summary above we refer to four of the worst bear markets in history. These were during the Great Depression (1929 – 1932), the 70's oil crisis (1973-1974), the technology bust of 2000 to 2002 and lastly the current bear market originally dubbed the subprime crisis.

During each of these bear markets there were a number of periods during which stock market prices increased by between 10% and 20% - a phenomenon typically known as a bear market rally.

The MSCI World Index has declined by more than -57% from its high on 31 October 2007, to the most recent low on 9 March 2009. During this time there have been four recoveries that exceeded ten percent, and a couple even exceeding twenty percent.

The table below shows the detail of the four bear market rallies that we have seen in the last fourteen months:

Dates	Increase in index points	% increase
17 March to 19 May 2008	441.85	13.98%
27 October to 4 November 2008	404.75	20.85%
20 November 2008 to 6 January 2009	420.42	23.35%
9 March to 16 April 2009*	445.67	27.57%

**This was at the time of writing, and therefore it may not be the end of the rally*

It is interesting to note that, even though the last three rallies exceeded 20% and therefore looks more like a recovery than a typical bear market rally, the same recovery measured in index points would have been between 10% and 20% if it took place a year ago.

The question that many investors are contemplating at the moment is whether the most recent recovery constitutes just another bear market rally, or whether it is the return of a longer term bull market. How would we know if this is the "real deal"?

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. April 2009

In order to support a proper bull market rally we would need to observe positive signs in the following seven factors:

- Economic growth
- Earnings growth
- Credit extension
- Investor sentiment
- Asset valuations
- Government policy
- Actual market recovery

The first three factors – economic growth, earnings growth and credit extension have certainly not recovered or even stabilised to such a level where one could start talking about a recovery to long term average levels. The economy is still hampered by increasing unemployment levels, a housing market that is yet to reach a bottom, increased savings levels and decreased consumer spending. The current US earnings season will certainly provide some indication as to how far earnings have declined and whether some kind of recovery is on the horizon. In spite of low central bank interest rates credit extension remains hampered and it is not helped by the large spreads of high yield and corporate debt issues over government paper.

Investor sentiment seems to be, if not overwhelmingly positive, at least turning the corner after continuously declining throughout most of the last two years. Asset valuations are looking a lot more attractive now than at the beginning of the year with analysts classifying a wider range of assets cheap than has been the case for a long time. The jury is out on the success of the global fiscal policy stimuli, and in spite of the magnitude of the most recent rally, equity markets are still some way below their 200 day moving average as the graph below shows:

Source: Bloomberg, April 2009.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. April 2009

So with three of the factors (economy, earnings and credit) still negative, one stabilising (investor sentiment) and the rest approaching positive territory it's slightly early to label the most recent recovery as the return of the bulls. New economic and company data released during April and May will certainly provide some more clarity on the matters above. This is not to say that the current rally will be short lived. Even if it is a bear market rally it could continue for some time, as was the case from September 2001 to March 2002 during the bear market that followed the tech bubble.

What does all of this mean to an investor wondering whether an allocation to equities is indeed worth all this volatility or risk? If the ultimate aim is to maximise returns on a risk adjusted basis, the (albeit rationalised) approach is: be more aggressive when risk levels are lower and consequently more conservative when volatility is higher.

And finally, will the last bear that leaves the building please switch off the lights – the bulls are quickest out of the blocks when the market is at its darkest…

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. April 2009

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