Weekly Review

Week ending 29th January 2010

This week brought the first month of 2010 to a close. January has proven to be a month of two halves, opening positively to greet the New Year and finishing poorly. The final week of January has brought further insight into Greece's debt problems, digestion of Obama's plan to create 'traditional' banking institutions that do not take risks with their balance sheets, more results in the earnings season and some interesting macroeconomic data. The past week certainly had a degree of volatility that is suggestive of the uncertainties that still lie ahead. Arguably the most positive economic story of the week came from the US. Their GDP growth for quarter 4 2009 surprised on the upside, but this was not sufficient to create positive equity returns for the day, let alone the week. Despite this good macro news, last week's main concerns were also macro-related, as Greece's continuing slide from grace resulted on a focus more broadly thought the fixed interest government issuers.

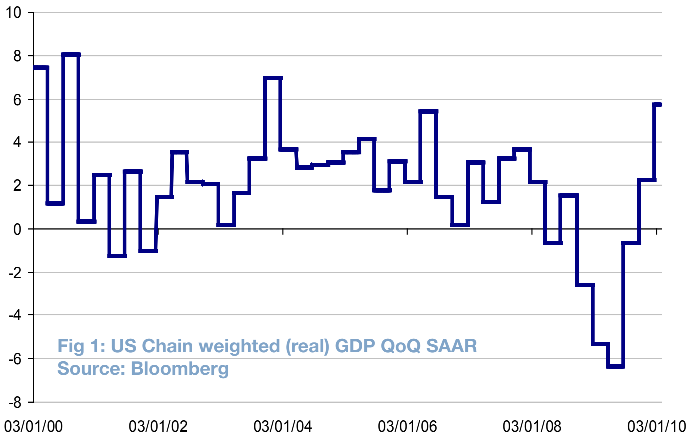

Fig 1: US Chain weighted (real) GDP QoQ SAAR
Source: Bloomberg

The equity markets finished the week in negative territory, with global equities returning -2.6% and Global Emerging Markets returning -3.1% in US Dollar terms. This performance is disappointing in light of the US earning season which continues to provide generally good news for the corporate sector. Deutsche Bank have calculated that with nearly half of the S&P 500 having reported, 80% of reported earnings have beaten estimates, with only 18% disappointing. This is a relatively positive signal, however it does rely on analysts who will tend to anchor to the recent past and therefore generally underestimate positive forecasts into the recovery. Despite this, the upshot is that most companies are reporting ahead of estimates which should provide some stability to the equity markets. It is perhaps the accompanying statements that are weighing on the markets as these cautiously optimistic statements are not reflective of companies who believe that the worst is over and desperate to hike their output to meet significant final demand pressures. One factor that might buoy the equity market somewhat this week was the GDP data that was released from the US on Friday. The US economy grew by 5.7% in the fourth quarter and from Figure 1, this appears to be something of a 'v-shaped recovery' that was considered all but impossible a mere 12 months ago.

Global bond markets sold off slightly in US dollar terms last week, with mild US Dollar weakness erasing any local currency gains. Global investment grade bonds fell -0.6% in the week, whilst emerging market debt fared slightly better, returning -0.4% in US Dollar terms. US Treasuries gained 0.1% amongst the increased volatility in equity markets and in fact some short term US government paper crept into negative yield territory for a short while on the 27th January. This unusual phenomenon was a sign of significant risk aversion in the period post Lehman's collapse in 2008, but the short reinstatement of the condition was somewhat perplexing given the lack of any imminent risk of systemic collapse.

Commodities and other 'real' assets also had a poor week as investors' growth expectations were dampened somewhat. Commodities returned -3.5%, which matched oil's returns. Agricultural commodities posted -3.1% and global property securities fell -2.2%.

Source: RMB Asset Management / Bloomberg / Lipper Hindsight. February 2010.

Returns to 29 January 2010

Asset Class/Region	Index	Currency	Week	Month	2010
Equities					
United States	S&P 500 NR	**USD**	-1.6	-3.6	-3.6
United Kingdom	FTSE All Share TR	**GBP**	-2.0	-3.6	-3.6
Continental Europe	MSCI Europe ex UK NR	**EUR**	-1.2	-3.4	-3.4
Japan	Topix TR	**JPY**	-4.2	-0.7	-0.7
Australia	S&P/ASX 300 TR	**AUD**	-3.8	-6.2	-6.2
Global	MSCI World NR	**USD**	-2.6	-4.1	-4.1
Global emerging markets	MSCI World Emerging markets TR	**USD**	-3.1	-5.6	-5.6
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.1	1.6	1.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.3	1.6	1.6
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.0	1.6	1.6
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.3	1.3	1.3
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.1	0.6	0.6
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.1	2.3	2.3
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.0	0.4	0.4
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.1	1.6	1.6
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.2	3.4	3.4
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1	0.0	0.0
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.5	1.4	1.4
Global Government bonds	JP Morgan Global GBI	**USD**	-0.7	0.5	0.5
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.6	0.2	0.2
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-1.0	-1.2	-1.2
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.4	-0.1	-0.1

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Returns to 29 January 2009

Asset Class/Region	Index	Currency	Week	Month	2010
Property					
US Property securities	MSCI US REIT TR	USD	-0.7	-5.4	-5.4
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-0.8	-7.0	-7.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	0.5	0.0	0.0
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	0.1	-2.8	-2.8
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-4.0	-6.8	-6.8
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-2.2	-5.9	-5.9
Currencies					
Euro		USD	-1.6	-3.1	-3.1
Sterling		USD	-0.6	-0.8	-0.8
Yen		USD	-0.6	2.7	2.7
Australian Dollar		USD	-1.8	-1.2	-1.2
Rand		USD	0.8	-2.4	-2.4
Commodities					
Commodities	RICI TR	USD	-3.5	-7.9	-7.9
Agricultural Commodities	RICI Agriculture TR	USD	-3.1	-7.6	-7.6
Oil	Brent Crude Index (ICE) CR	USD	-3.5	-6.3	-6.3
Gold	Gold index	USD	-0.5	-4.1	-4.1

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