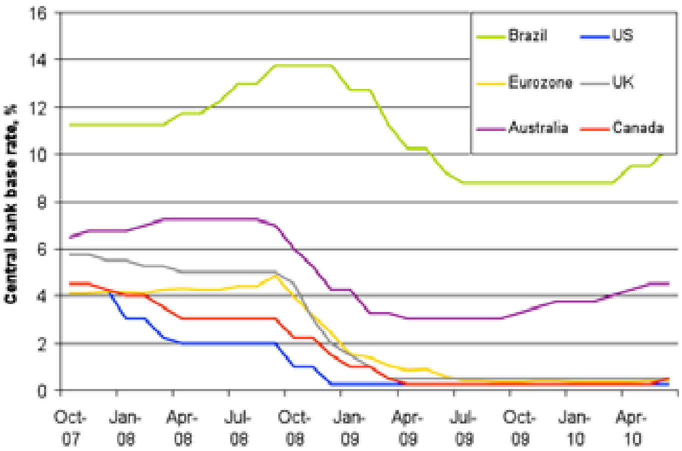
Weekly Review

Week ending 11th June 2010

Despite another disappointing start markets ended the week on a stronger note with the S&P 500 index gaining 2.6% over the period. Having closed at 1091 on Friday the index remains over 10% below this year's high of 1217 set in April. For the more optimistic readers valuations may appear attractive at these levels and indeed there have been some pieces of evidence to support this stance. For example pockets of value have emerged amongst convertible bonds where investors have been able to buy these bonds at such cheap prices that the embedded option on the equity was essentially free. The derivatives market has also provided cause to believe the markets are oversold, with high demand for put options at one point having pushed the put call ratio (a gauge of the demand for insurance against equity market declines) to its highest level since January last year. Additionally, in terms of overall market valuation much of continental Europe is now trading on a single digit multiple of next year's estimated earnings. Risk aversion has clearly increased in recent weeks, and probably for good reason given events in Europe, and with it volatility and correlations have also increased. Indeed since mid April the New York Stock Exchange has experienced eight days where 90% of all stocks traded lower and four days where 90% traded higher, suggesting that the market was not discriminating much amongst stocks but rather was being driven by risk aversion. These observations reflect the severe divergence of views evident in markets as investors struggle to reconcile a cyclical rebound with the increasingly apparent structural obstacles that lie ahead.



The increasing divergence between developed and emerging markets was made yet clearer last week as Brazil's central bank raised interest rates by three quarters of a percent for the second time in 6 weeks, bringing the policy rate to 10.25%. The Brazilian economy was measured to have grown at a year on year rate of 9% in the first quarter leading to fears of overheating due to this rate far exceeding what economists believe to be the potential rate of around 5%. However, the base effect must be taken into account here given that any comparison with the first quarter of 2009 is likely to be impressive. In 2010 the Brazilian economy is expecting GDP growth of 6.6%, but concerns do remain that the country's infrastructure is inadequate to foster such rapid growth in a sustainable way. By way of contrast the Bank of England and European Central Bank both took the decision to leave interest rates unchanged last week at 0.5% and 1.0% respectively in their continued attempts to stimulate growth.

Risk assets produced mostly positive returns last week. In local currency terms all major equity regions produced positive returns (as much as 2.9% in the case of Continental Europe) with the exception of Japan where the Topix index closed the week down by -2.6%. Global emerging markets lagged developed markets with a return of 0.4% compared to 2.0%, whilst commodities produced decent returns as the broad RICI commodity index rose 2.8%. The recent strength in commodity prices was also reflected in the currency market with the Australian dollar appreciating by over 2% versus the US Dollar. Bond investors mostly failed to benefit from the same gains as their equity peers; government bonds posted a small positive return whilst investment grade and high yield bonds mostly declined in value.

Source: RMB Asset Management / Bloomberg / JP Morgan / Lipper Hindsight. June 2010.

FP FINANCIAL PARTNERS RMB ASSET MANAGEMENT

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Returns to 11 June 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	2.6	0.3	-1.5
United Kingdom	FTSE All Share TR	**GBP**	0.7	-0.1	-1.7
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.9	2.1	-1.9
Japan	Topix TR	**JPY**	-2.6	-1.6	-3.6
Australia	S&P/ASX 300 TR	**AUD**	1.2	1.8	-6.0
Global	MSCI World NR	**USD**	2.0	0.2	-6.5
Global emerging markets	MSCI World Emerging markets TR	**USD**	0.4	-1.0	-6.4
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.0	0.6	4.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.2	0.4	3.4
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.5	0.2	3.7
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.6	-0.6	2.6
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.6	0.8	5.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.1	0.3	5.2
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.6	-0.1	2.9
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.2	0.0	3.3
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-1.3	-1.5	4.1
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2	0.3	1.3
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.2	0.0	3.4
Global Government bonds	JP Morgan Global GBI	**USD**	0.5	-0.3	-1.9
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.3	-0.2	-2.5
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.6	-0.7	-4.4
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.2	0.4	3.4

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

Returns to 11 June 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	7.8	1.2	12.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-0.6	-1.0	-10.1
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.3	1.8	-3.1
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	0.5	2.2	0.8
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	0.3	0.7	-7.4
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	3.5	0.7	-3.3
Currencies					
Euro		**USD**	0.5	-1.4	-15.7
Sterling		**USD**	0.0	0.2	-9.9
Yen		**USD**	0.3	-0.7	1.6
Australian Dollar		**USD**	2.3	1.2	-5.6
Rand		**USD**	0.5	-0.4	-4.6
Commodities					
Commodities	RICI TR	**USD**	2.8	-0.9	-10.8
Agricultural Commodities	RICI Agriculture TR	**USD**	2.2	-0.8	-13.2
Oil	Brent Crude Index (ICE) CR	**USD**	0.4	0.2	-3.7
Gold	Gold index	**USD**	1.4	1.0	8.4

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

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