FINANCIAL PARTNERS

RMB ASSET MANAGEMENT

# Weekly Review

## Week ending 20th May 2011

Global equities fell by -0.4% last week – the third consecutive weekly decline – to leave markets -3.5% lower since the start of the month. Emerging markets also lost ground, with the MSCI Emerging Markets Index falling by -0.3% in US Dollar terms. The FTSE All Share Index was the only major stock index to post a positive return during the week, rising by 0.4% in Sterling terms. The falls in stock prices have coincided with a slight deterioration in the macroeconomic outlook, with the data momentum appearing to slow in recent weeks. German ZEW economic sentiment, released on Tuesday, appeared indicative of this trend, coming in below expectations at 3.1 versus 4.5 expected. More signs emerged last week of obstructions to the global supply chain caused by the natural disaster in Japan, as auto manufacturers struggled to source a range of specialist parts that appear to have fewer substitute producers than previously thought. Japan's first quarter GDP contracted by an annualised rate of -3.7% according to the country's Economic and Social Research Institute, almost twice the market consensus. In spite of the news, the Bank of Japan voted against expanding its programme of asset purchases.

IMF chief Dominique Strauss-Kahn resigned from his position as head of the international lender on Wednesday evening, as the fallout from his arrest in New York on 14th May continued. Mr. Strauss-Kahn was initially refused bail by a court in New York, before successfully extricating himself from formal detention with a bail price of USD 6m. The French Finance Minister, Christine Lagarde, has emerged as the frontrunner to assume the helm at the IMF, although the unexpected departure of Mr. Strauss-Kahn has brought forward discussions over the perennial succession of a European to the head of the institution, in light of its global status. European Finance Ministers ratified the EUR 78bn bailout package for Portugal last week. The average interest rate for the first three years of the loan is expected to be around 5%, rising to 5.2% for the remainder of the seven and a half year package. There was increasingly open discussion of the possibility of a restructuring of Greek debt amongst senior officials last week, although France, Belgium, and to a lesser extent Germany, remain opponents of any such action; French ministers are reported to have softened their stance somewhat over the weekend. European Central Bank (ECB) officials stated that any kind of restructuring would wipe out a large portion of the capital base of Greece's banks, limiting their access to the ongoing ECB loans programme. The Greek cabinet is widely expected to reveal additional austerity measures including spending cuts, higher taxes and further sales of government assets, in order to try and meet obligations to creditors. The country suffered a three-notch downgrade by Fitch, the ratings agency, on Friday, as the cost of insuring Greek government debt against a default scenario rose to 1,037bps. Elsewhere in the eurozone, Spain's auction of 10 year bonds on Thursday was poorly supported by investors, with a lower amount sold than in recent weeks. Spain's local elections, which have seen a swing towards the conservative Popular Party, may prompt the uncovering of further deficits at a regional level, as any new party would have little incentive to understate the condition of the finances it inherits.

On the other side of the Atlantic, the US government reached its pre-agreed USD 14.3tr debt ceiling on Monday last week. As anticipated, accounting vagaries allowed the government to continue 'business as usual', although the debate over government spending is in its infancy. As the US moves towards exiting its quantitative easing programme, policymakers are said to favour an end to reinvestment from existing purchases, followed by interest rate rises, and then finally asset sales.

Global government bonds fell by -0.4% last week as measured by the JP Morgan Global Government Bond Index. Regional bond markets rallied in local currency terms, with government paper in the US, UK and Australia rising by an average 0.2%. Emerging market bonds outperformed other regions, up by 0.4% in US Dollar terms. Property and commodities provided the strongest returns last week. Indirect property investments in the UK and Australia both advanced by 1.7%, and all major regions were in positive territory in local currency terms. Agricultural commodities gained 4.7% during the week, whilst gold returned -1.0%, with oil broadly flat.

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

## Returns to 20 May 2011

| Asset Class/Region | Index | Currency | Week | Month to date | Year to date |
|---|---|---|---|---|---|
| **Equities** | | | | | |
| **United States** | S&P 500 NR | **USD** | -0.3 | -2.1 | 6.6 |
| **United Kingdom** | FTSE All Share TR | **GBP** | 0.4 | -1.4 | 2.7 |
| **Continental Europe** | MSCI Europe ex UK NR | **EUR** | -0.6 | -1.4 | 4.2 |
| **Japan** | Topix TR | **JPY** | -1.5 | -2.8 | -6.9 |
| **Asia Pacific (ex Japan)** | MSCI AC Asia Pacific (ex Japan) TR | **USD** | -0.1 | -3.0 | 4.4 |
| **Global** | MSCI World NR | **USD** | -0.4 | -3.5 | 5.5 |
| **Global emerging markets** | MSCI World Emerging Markets TR | **USD** | -0.3 | -5.0 | 0.0 |
| **Bonds** | | | | | |
| **US Treasuries** | JP Morgan United States Government Bond Index TR | **USD** | 0.2 | 1.0 | 2.0 |
| **US Treasuries (inflation protected)** | Barclays Capital U.S. Government Inflation Linked TR | **USD** | -0.2 | -0.4 | 4.2 |
| **US Corporate (investment grade)** | Barclays Capital U.S. Corporate Investment Grade TR | **USD** | 0.2 | 1.0 | 3.6 |
| **US High yield** | Barclays Capital U.S. High Yield 2% Issuer Cap TR | **USD** | 0.1 | 0.6 | 6.1 |
| **UK Gilts** | JP Morgan United Kingdom Government Bond Index TR | **GBP** | 0.2 | 0.6 | 1.7 |
| **UK Corporate (investment grade)** | Merrill Lynch Sterling Non Gilts TR | **GBP** | 0.1 | 0.8 | 4.0 |
| **Euro Government Bonds** | Citigroup EMU GBI TR | **EUR** | -0.1 | 0.8 | 0.0 |
| **Euro Corporate (investment grade)** | Barclays Capital Euro Aggregate Corporate TR | **EUR** | 0.1 | 0.8 | 1.8 |
| **Euro High yield** | Merrill Lynch Euro High Yield 3% constrained TR | **EUR** | 0.2 | 0.8 | 6.7 |
| **Japanese Government** | JP Morgan Japan Government Bond Index TR | **JPY** | -0.1 | 0.6 | 0.3 |
| **Australian Government** | JP Morgan Australia GBI TR | **AUD** | 0.3 | 0.7 | 3.1 |
| **Global Government bonds** | JP Morgan Global GBI | **USD** | -0.4 | -1.0 | 2.6 |
| **Global Bonds** | Citigroup World Broad Investment Grade (WBIG) TR | **USD** | -0.2 | -1.0 | 3.2 |
| **Global Convertible bonds** | UBS Global Convertible Bond | **USD** | -0.2 | -2.3 | 5.2 |
| **Emerging Market Bonds** | JP Morgan EMBI + | **USD** | 0.4 | 1.4 | 3.5 |

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## Returns to 20 May 2011

| Asset Class/Region | Index | Currency | Week | Month to date | Year to date |
|---|---|---|---|---|---|
| **Property** | | | | | |
| **US Property securities** | MSCI US REIT TR | **USD** | 0.3 | -2.0 | 10.0 |
| **UK Property securities** | FTSE EPRA/NAREIT United Kingdom TR | **GBP** | 1.7 | 0.4 | 12.5 |
| **Europe ex UK Property securities** | FTSE EPRA/NAREIT Developed Europe ex UK TR | **EUR** | 0.5 | 1.4 | 7.5 |
| **Australian property securities** | FTSE EPRA/NAREIT Australia TR | **AUD** | 1.7 | 0.6 | 4.3 |
| **Asia Property securities** | FTSE EPRA/NAREIT Developed Asia TR | **USD** | 0.7 | -1.1 | -1.9 |
| **Global Property securities** | FTSE EPRA/NAREIT Developed CR | **USD** | 0.5 | -1.8 | 6.3 |
| **Currencies** | | | | | |
| **Euro** | | **USD** | -0.4 | -4.6 | 5.5 |
| **Sterling** | | **USD** | -0.1 | -2.9 | 3.4 |
| **Yen** | | **USD** | -1.1 | -0.6 | -0.7 |
| **Australian Dollar** | | **USD** | 0.1 | -2.9 | 3.7 |
| **Rand** | | **USD** | 1.1 | -4.8 | -4.4 |
| **Commodities** | | | | | |
| **Commodities** | RICI TR | **USD** | 1.6 | -7.5 | 4.7 |
| **Agricultural Commodities** | RICI Agriculture TR | **USD** | 4.7 | -1.9 | 1.3 |
| **Oil** | Brent Crude Index (ICE) CR | **USD** | 0.1 | -10.5 | 20.2 |
| **Gold** | Gold index | **USD** | -1.0 | -3.5 | 5.6 |

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

## Important notes

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Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

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