Weekly Review

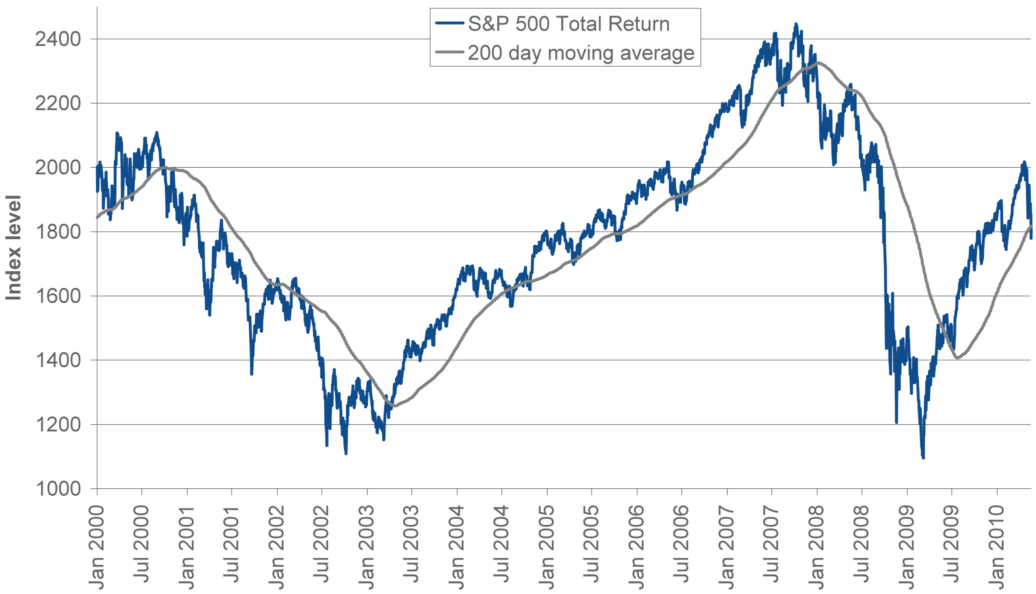
Week ending 21st May 2010

Negative sentiment in markets drove risk asset prices lower in a week where even gold lost some of its lustre. The global sovereign debt crisis, illustrated by first the woes of Dubai World and more recently Greece and it peers, has started to take its toll as investors' worries about global growth and the health of government balance sheets lead to risk aversion around the world. Over the weekend the Bank of Spain has taken over the running of Spanish savings bank CajaSur after a planned merger with Unicaja failed. Even though the problems for the Cajas are well known and the expected rise in Spanish public debt (estimated at more than 120% of GDP by 2014) may be significant, it is still below the likely level in Greece this year. It is however the doubt overhanging the Spanish financial environment that continues to hit sentiment.

Global equity markets struggled against this backdrop even though global economic indicators have not changed much from the past couple of weeks. The MSCI World Index ended the week 4.4% lower, and the emerging markets index fared even worse as it shed 7.5%. The major regional markets all suffered to more or less the same extent, as the S&P 500, FTSE All Share and MSCI Europe ex UK all ended around 4% lower than the previous week's close. Japan's Topix was over 6% down, but a strengthening of the Yen versus the US Dollar (+2.4%) softened the blow for non-Japanese investors. On the back of a deteriorating outlook for commodities the Australian market lost 6.5%, this coupled with the Australian Dollar depreciating by 7.3% against the greenback certainly had a negative impact on global portfolios with exposure down under.

In spite of sovereign risk concerns government bond markets held up well and in the US (+1.0%), UK (+1.9%), Europe (+0.9%) and Japan (+0.4%) bond investors enjoyed some respite from the volatility in equity markets. Investment grade corporate bonds lagged their sovereign counterparts, but still exhibited some protection against the risk aversion in markets. US high yield bonds (-2.0%) and global convertible bonds (-3.7%) suffered as well but not to the same extent as equities. Property securities struggled in the light of increasing deflationary fears, and this also weighed heavily on gold which fell 4.6%.

The chart below shows the S&P 500 total return index against its 200 day moving average. A break through the moving average has sometimes been extremely useful for trend followers and passive investors. This indicator clearly supports the "sell in May and go away" theory. Our view however is that some risky asset classes are starting to look much more appealing at these levels. Whereas at the start of the year few asset classes were trading significantly below fair value, equities and high yield bonds now seem to offer attractive valuations.



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

Returns to 21 May 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	-4.2	-8.2	-1.9
United Kingdom	FTSE All Share TR	**GBP**	-4.0	-8.4	-3.9
Continental Europe	MSCI Europe ex UK NR	**EUR**	-3.7	-7.9	-6.3
Japan	Topix TR	**JPY**	-6.1	-10.9	-2.2
Australia	S&P/ASX 300 TR	**AUD**	-6.5	-10.2	-10.3
Global	MSCI World NR	**USD**	-4.4	-10.2	-7.2
Global emerging markets	MSCI World Emerging markets TR	**USD**	-7.5	-12.8	-9.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	1.0	2.2	4.5
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.3	0.4	3.4
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.5	0.6	4.8
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-2.0	-3.9	2.9
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	1.9	3.0	4.9
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	0.9	0.9	5.8
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.7	1.9	3.5
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.3	-0.3	3.6
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-3.1	-5.1	5.0
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.4	0.3	1.1
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.9	2.0	3.2
Global Government bonds	JP Morgan Global GBI	**USD**	1.7	0.6	-0.4
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.2	-0.3	-1.1
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-3.7	-7.8	-5.0
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-1.7	-2.1	2.1

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

Returns to 21 May 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	-5.1	-7.5	8.6
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	-1.5	-8.8	-11.1
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	-3.1	-8.1	-7.4
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-6.4	-9.2	-6.9
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	-6.9	-11.7	-9.8
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	-5.6	-10.5	-5.8
Currencies					
Euro		**USD**	1.1	-5.6	-12.5
Sterling		**USD**	-0.8	-5.7	-10.6
Yen		**USD**	2.4	4.6	3.6
Australian Dollar		**USD**	-7.3	-11.3	-8.2
Rand		**USD**	-4.0	-6.5	-6.4
Commodities					
Commodities	RICI TR	**USD**	-3.9	-11.7	-11.3
Agricultural Commodities	RICI Agriculture TR	**USD**	0.8	-4.1	-10.7
Oil	Brent Crude Index (ICE) CR	**USD**	-10.8	-17.4	-7.5
Gold	Gold index	**USD**	-4.6	0.0	4.9

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