Weekly Review

Week ending 23rd July 2010

The main news story for last week was the build up to the announcement of the European banking stress test results. This event actually turned out to be something of a damp squib leaving many questions unanswered and potentially creating some new questions and doubts for investors. The best result for the market would have been an exhaustive, open investigation that reached a positive but realistic conclusion. The worst result would have been a hugely negative conclusion. The actual outcome was fairly positive, but the study appeared to leave some stones unturned in the process. The Committee of European Banking Supervisors (CEBS) issued results on Friday, showing that seven of 91 EU banks failed to achieve a tier one capital ratio of 6% under a series of macroeconomic scenarios. The panel concluded that only EUR 3.5bn was required to put the European banks in a stable position. The tests were also subject to some criticism as the committee effectively provided a 0% probability to defaults of sovereign holdings. In Europe on Monday morning, the markets have opened slightly up and the banking sector is performing reasonably well but these gains may not prove significant as there is a degree of scepticism over the rigour of these tests. Indeed this morning the FT reports that European regulators *"have accused Germany and its banks of reneging on a deal to publish full details of sovereign debt holdings, as part of the four-month-long stress test exercise of the country's banking sector"* as at least six of 14 German banks failed to publish information. Issues such as these could rumble of for some time, risking transforming a potentially worthy study into an unedifying and inconclusive squabble.

Away from the stress testing, other data was reasonably positive last week. The earnings season continues to impress as of the 150 companies that have thus far reported in the US, 86% beat expectations and 13% missed (1% in line) for earnings per share. Looking instead at revenues, the picture remains positive with 67% beating and 33% missing forecasts for Q2. In Europe the two ratios are 60%:37% (3% in line) and 69%:31% respectively. Of late the markets have been seemingly more sensitive to negative news such as evidence of Chinese slowing, and fretting about Europe, but this week saw an improvement of news flow and a degree of optimism appears to have crept in. Indeed, there was good news for Europe: both the flash PMIs and the German IFO were much better than expected, as was the UK GDP print, a series that will be important to watch as the British austerity measures bite.

Interestingly, institutions are buyers of equity at the moment, with a Citigroup report demonstrating that institutions' equity holdings were 68% of their holdings in July, the highest level in 15 months, from 63% in April. At the same time, however, retail investors have turned increasingly negative, as the ratio of bullish to bearish respondents in a survey by the American Association of Individual Investors has fallen to 0.68, the lowest level since July 2009, based on a four-week average. Bloomberg reports that the last time professionals and individuals were expressing a similar level of divergence of views was March 2009, prior to the rally from the markets' nadir. This alone is certainly not a reason to turn bullish (or bearish), but it is an interesting observation nonetheless.

Turning to the markets, the global equity index gained 2.5% in US dollar terms for the week, bringing its month to date returns to 7.4%. Year to date the index is still in negative territory, however. Global emerging markets outperformed developed markets over the week, with a return of 3.5%, but month to date the two regions are broadly in line. Global bonds returned -0.5% with credit outperforming sovereign paper over the week as spreads compressed. The government debt component of the index sold off, posting returns of -0.6%. High yield debt posted positive returns as did convertibles, providing some pockets of opportunity in the fixed income universe for those willing to accept additional risk. Global property securities had a strong week, returning 4.4%. The US and Europe were the strongest regions in local currency terms. Although oil and gold had a relatively quiet week, the Rogers Commodity index gained 2.3%. Agricultural commodities underperformed, returning 0.2%. Month to date agricultural commodities remain well ahead of other commodities, however.

Source: RMB Asset Management / Bloomberg / Financial Times / Lipper Hindsight. July 2010.

Returns to 23 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	3.6	7.1	-0.4
United Kingdom	FTSE All Share TR	**GBP**	3.0	7.9	1.3
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.5	4.6	0.7
Japan	Topix TR	**JPY**	0.1	0.0	-6.4
Australia	S&P/ASX 300 TR	**AUD**	0.8	3.7	-6.8
Global	MSCI World NR	**USD**	2.5	7.4	-3.2
Global emerging markets	MSCI World Emerging markets TR	**USD**	3.5	7.2	0.6
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.2	0.1	6.1
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.1	-0.8	3.6
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.0	1.0	6.9
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.8	2.0	7.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-1.0	0.0	5.2
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.5	0.3	6.0
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.0	0.5	2.8
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.3	0.3	4.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	1.2	2.0	8.9
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.1	0.1	2.5
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.4	0.1	4.7
Global Government bonds	JP Morgan Global GBI	**USD**	-0.6	2.2	2.6
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.5	2.7	1.3
Global Convertible bonds	UBS Global Convertible Bond	**USD**	1.4	4.2	0.1
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.5	2.0	8.9

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

Returns to 16 July 2010

Asset Class/Region	Index	Currency	Week	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	6.3	7.6	13.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	4.3	7.4	-6.9
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	6.2	7.2	5.6
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	-0.2	2.8	0.2
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	2.4	7.7	-0.7
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	4.4	8.1	1.3
Currencies					
Euro		**USD**	-1.0	4.7	-10.7
Sterling		**USD**	0.4	3.0	-4.6
Yen		**USD**	-1.0	1.4	6.7
Australian Dollar		**USD**	2.4	5.9	-0.6
Rand		**USD**	1.8	2.9	-1.2
Commodities					
Commodities	RICI TR	**USD**	2.3	4.8	-5.6
Agricultural Commodities	RICI Agriculture TR	**USD**	0.2	8.0	-4.4
Oil	Brent Crude Index (ICE) CR	**USD**	0.7	1.2	-1.6
Gold	Gold index	**USD**	0.1	-4.3	5.8

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

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