Weekly Review

Week ending 31st May 2010

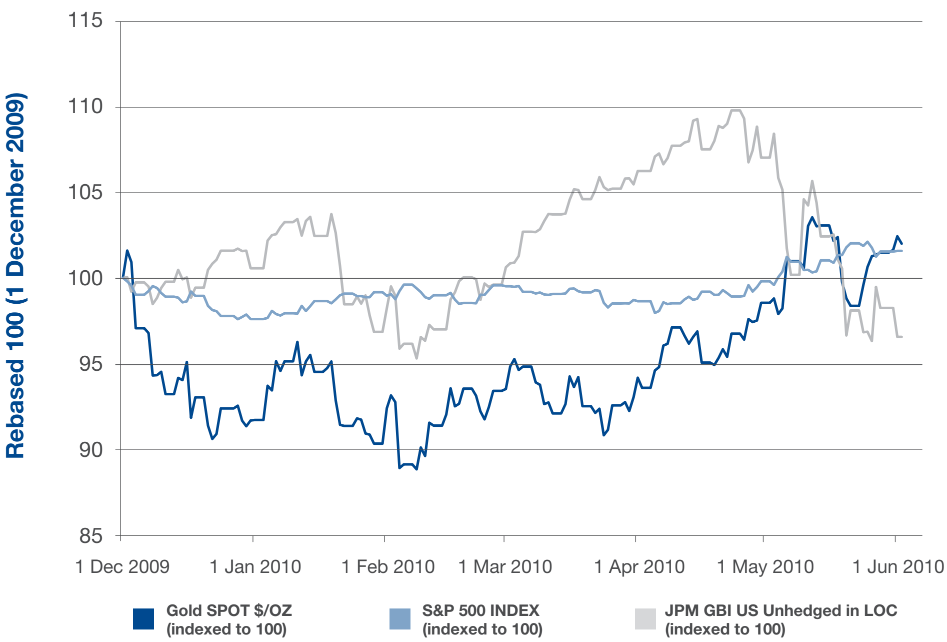
The last ten days of the month granted some reprieve to battered equity markets. During the month of May equity indices around the world experienced declines that we last saw in February 2009, which may feel like a lifetime ago but is surprisingly recent. Last week's rally in equity markets managed to pull most major indices back to single digit percentage point losses for the month, with the exception of Japan's Topix which ended the month 10.8% in the red. Government bonds, on the other hand, gave back a little of its gains from earlier in the month, but still managed to deliver around 2% (for the month) in the United States, United Kingdom and Europe (in local currency terms).

G-10 currency performance during May 2010, measured against USD (Source: Bloomberg)

In currency markets the euro was broadly weaker against other major currencies, but even at current levels it still looks overvalued. A Greek debt restructuring seems inevitable eventually, and with the rest of southern Europe in a somewhat less (but still perilous) situation this single currency may be in for a tough time. This could augur well for European exporters, supporting the premise that a weak euro and similarly weak European consumer may not necessarily translate into a weak European corporate sector. From a global economic growth point of view the US and most emerging markets certainly seems to be in a much stronger position than Europe, and a weak euro could benefit European multinationals that earn the majority of their revenues from outside of the European Union.

Apart from the euro (and most other currencies) the Pound Sterling also weakened during May. Of the G-10 currencies only the yen managed to stay abreast of the US Dollar as it gained around 3% for the month (see chart above). Commodity based currencies such as the Australian and Canadian Dollar struggled on the back of a deteriorating global economic outlook.

Gold has performed well during May (up 7.3%), but over the last six months it has produced similar returns to bonds, but at the same level of risk as US equities. Investors who hold gold as the ultimate safe haven over a short time horizon (less than one year) should take cognisance of the volatility that's associated with this asset, as the graph below shows.



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

Returns to 31 May 2010

Asset Class/Region	Index	Currency	Ten days	Month to date	Year to date
Equities					
United States	S&P 500 NR	**USD**	0.2	-8.1	-1.7
United Kingdom	FTSE All Share TR	**GBP**	2.4	-6.2	-1.6
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.5	-5.5	-3.9
Japan	Topix TR	**JPY**	0.1	-10.8	-2.1
Australia	S&P/ASX 300 TR	**AUD**	2.9	-7.5	-7.6
Global	MSCI World NR	**USD**	0.7	-9.6	-6.6
Global emerging markets	MSCI World Emerging markets TR	**USD**	4.6	-8.8	-5.5
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.5	1.8	4.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.4	0.0	2.9
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-1.2	-0.6	3.6
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.3	-3.6	3.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-0.6	2.4	4.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.9	0.0	4.8
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-0.4	1.5	3.1
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.2	-0.5	3.3
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	0.7	-4.5	5.7
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.1	0.3	1.0
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.1	2.1	3.4
Global Government bonds	JP Morgan Global GBI	**USD**	-1.3	-0.7	-1.7
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-1.1	-1.3	-2.2
Global Convertible bonds	UBS Global Convertible Bond	**USD**	0.6	-6.6	-3.7
Emerging Market Bonds	JP Morgan EMBI +	**USD**	0.9	-1.2	3.0

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

Returns to 31 May 2010

Asset Class/Region	Index	Currency	Ten days	Month to date	Year to date
Property					
US Property securities	MSCI US REIT TR	**USD**	2.2	-5.5	11.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	2.2	-6.8	-9.2
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.8	-5.5	-4.8
Australian property securities	FTSE EPRA/NAREIT Australia TR	**AUD**	5.9	-3.8	-1.4
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	1.9	-10.0	-8.1
Global Property securities	FTSE EPRA/NAREIT Developed CR	**USD**	1.9	-8.8	-4.0
Currencies					
Euro		**USD**	-2.3	-7.7	-14.5
Sterling		**USD**	0.6	-5.1	-10.0
Yen		**USD**	-1.3	3.3	2.3
Australian Dollar		**USD**	1.6	-9.9	-6.7
Rand		**USD**	2.3	-4.3	-4.2
Commodities					
Commodities	RICI TR	**USD**	1.6	-10.3	-9.9
Agricultural Commodities	RICI Agriculture TR	**USD**	-2.0	-6.0	-12.5
Oil	Brent Crude Index (ICE) CR	**USD**	2.3	-15.6	-5.4
Gold	Gold index	**USD**	2.4	2.4	7.3

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