

Global Investment Perspective

June 2010

Highlights

In May, the ongoing turmoil surrounding the sovereign debt crisis in Europe continued to drive investor sentiment lower. Despite the combined efforts of European officials and the IMF to put together a EUR110 billion bailout package for Greece, as well as a EUR750 billion emergency fund to ensure the re-establishment of financial stability in the euro zone, this has not been sufficient to allay concerns of further credit rating downgrades and fears of contagion effects within Europe.

Furthermore, growing concern over the sustainability of the economic recovery compounded investors' worry last month, especially regarding the US, as the country's leading indicator unexpectedly dropped. Adding to this concern is potential deflationary pressure in the US following reports that the consumer price index fell in April, the first monthly decline in more than a year.

May Market Recap

Global equities fell sharply in May as a result of a spike in risk aversion. Developed markets declined by about 9% and emerging markets lost around 8% over the month. Adding to the concern regarding the debt situation in Europe, signs of further monetary tightening in emerging markets weighed on sentiment, as this could slow the pace of the economic rebound in the region and globally.

In addition, Germany's unilateral decision to impose a ban on naked short selling of certain EUR-denominated assets contributed to hurt sentiment, whilst the progress in financial sector reforms continued to cause concern. In the US, the Senate approved a bill that imposes restrictions on proprietary trading by banks, and in Europe, a bank tax is also looking increasingly likely.

Outlook & Strategy

Overall, our view remains unchanged. From a macroeconomic perspective, the scenario of moderate growth for developed economies and stronger growth in emerging markets stands. That said, there remain pockets of risk, especially in Europe, due to the potential impact of the deteriorating fiscal positions of several countries. In addition, there is still risk to the sustainability of the economic rebound, given the potential for further monetary tightening in emerging markets, that have been a key driver of the economic rebound.

For equity markets as a whole, we retain a moderately underweight versus cash. Valuations are still in neutral territory and we remain concerned by the further positive revisions in corporate earnings growth estimates for 2010. Indeed, the outlook for consumption in developed economies has failed to show signs of sustainable improvement, which overall is likely to weigh on the ability of companies to achieve such optimistic levels of earnings' growth in 2010.

At the regional level for equities, we continue to favour Latin America over Emerging Asia for two key reasons. First, from a macro-economic perspective, Latin America, and Brazil in particular, is likely to outperform and surprise on the upside. Secondly, from a valuation perspective, the discount between Latin America and Emerging Asia equities remains supportive, despite the narrowing that we have already seen. Elsewhere in emerging markets, we have closed the position in Turkish equities into strength, as valuations are now less attractive, following the recent strong run up.

Furthermore, given the concern over consumption in developed economies and the heightened level of stress in equity markets overall, we maintain our preference for defensive sectors over cyclical and financial sectors. In the current economic environment, the more stable earnings profile of these companies is more attractive. In addition, while we acknowledge that the valuation of defensive sectors have normalized somewhat, the discount to cyclical sectors remains attractive.

For fixed income, we maintain our preference for corporate bonds, as we see value on a total-return basis. On a valuation basis, emerging-market debt continues to look less attractive than high-yield corporate debt. Overall, we therefore maintain our negative stance on USD denominated emerging market sovereign debt relative to developed market corporate debt. We also have a negative view on global developed inflation linked bonds. Inflation is still relatively contained in the near term for developed economies, as high unemployment, compression in salaries as well as ongoing risks to a sustainable recovery are likely to weigh on consumption.

Short-Term Investment Outlook (6-12 months)

	Asset Class	Current View	Reasoning
EQUITY	Global Developed Market Equity	Neutral	While equity valuations are no longer as attractive as in 1Q 09, liquidity remains supportive, as interest rates are likely to stay low for some time in developed economies.
	US Equity	Neutral	US economic activity is positive, but the pace of improvement is likely to slow down, while the risk from weak consumption and high unemployment persists. As such, the sustainability of US economic growth is in doubt.
	Europe Equity (including the UK)	Neutral	While market liquidity support remains strong, high levels of unemployment, sovereign debt issues and potential reduction of economic stimulus in Europe add risk to the outlook for economic growth and corporate earnings.
	Japan Equity	Neutral	Further JPY strength would add to Japan's deflation pressure, despite ongoing improvement in manufacturing and trade, low interest rates and further support from the Japanese government.
	Asia ex Japan Equity	Neutral	From a macroeconomic perspective, the outlook remains generally positive with strong performance in both manufacturing and consumer sectors. However, from a valuation perspective, market prices have largely reflected the positive news flow.
	Global Emerging Markets	Neutral	Emerging markets are likely to continue to lead the recovery due to robust domestic consumption and strong intra-regional trade. That said, the positive news flow is reflected in valuations and monetary tightening could slow the pace of growth.
	Latin America Equity	Positive	Economic data remains strong in the region and there is potential for positive surprises, especially from Brazil. Although the valuation discount to Emerging Asia has narrowed, it remains supportive on the whole.
	Middle East Equity	Neutral	Economic data from the region has been highly encouraging and 2010-2011 forecasts are positive. In addition, valuations remain reasonable. Key risks include a slow down in US demand for oil and the potential deterioration of budget deficits among some of the countries in the region.
	Eastern Europe Equity	Neutral	Similar to other emerging markets, manufacturing data has been encouraging. That said, weak labour market conditions, high level of government debt and ongoing turmoil in Western Europe are weighing on the outlook for the region.

FIXED INCOME	Sovereign USD	Negative	Despite heavy supply, macroeconomic headwinds and rising risk aversion have kept the demand for US government bonds fairly buoyant. However, within fixed-income assets, we prefer to own corporate debt, where we see greater total return opportunities.
	Sovereign EUR	Negative	Sovereign risk and the impact of the deteriorating credit quality of several peripheral Eurozone countries are likely to continue to generate volatility for this asset class. Overall, within fixed-income, given the exceptionally low yields offered by government bonds, our preference remains for corporate debt on valuation grounds.
	Investment Grade Corporate	Positive	Strong earnings results and a view that the major central banks will keep interest rates lower for longer have seen demand for investment grade corporate bonds remain fairly robust.
	High Yield	Positive	Given the recent volatility seen in other riskier asset classes, high-yield bond performance has been relatively resilient. The asset class continues to look attractive on a total-return basis.
	USD-denominated Emerging Markets Debt	Negative	Emerging-market debt continues to look less attractive than high-yield corporate debt on valuation grounds.
	Global Inflation-linked Bonds	Negative	With break-even inflation levels up significantly since early 2009, the case for global developed inflation-linked bonds is less compelling than a year ago, from a valuation perspective. Therefore, we recommend a moderately negative allocation against nominal bonds.

OTHER INVESTMENTS	Oil	Range of between USD 65-85 per barrel	We expect oil price to keep fluctuating in the USD 65-85 range, as improved demand is balanced out by the clouded economic growth outlook. Fluctuation in risk appetite will also contribute to oil price volatility.
	Gold	Range of between USD 1,000 to 1,200 per troy ounce	Inflation pressure and concern over the USD as a reserve currency make gold an investable long-term theme. But in the near term, the gold price could be constrained by relative USD strength and supply concerns as the IMF intends to sell some of its gold reserves.
	Commercial Real Estate	Neutral	High unemployment, falling occupancy rates and declining rental values in the US and Europe warrant a cautious/negative outlook for these two markets in general. But within Europe, we have a positive view on the UK relative to other direct markets due to the increase in investors' interest for UK properties and the lack of quality supply. The outlook for Asia Pacific is improving, although there is regional divergence and concern that price bubbles are forming in markets like Hong Kong and China.
CURRENCY	EUR vs. USD	Neutral	The Euro is susceptible to both positive and negative surprises depending on how resolution of the 'PIGS' (Portugal, Italy, Greece, Spain) fiscal difficulties unfolds. Valuation indicators are not sending any signals at present so in the short term, we recommend a neutral EUR position overall. The GBP is also susceptible to event risk from the resolution of the UK's budget deficit.
	GBP vs. USD	Neutral	
	JPY vs. USD	Neutral	

Summary:

For equities, as a result of valuations and current growth concerns, we maintain our preference for defensive sectors, such as healthcare and telecommunication services, over financials and cyclical sectors. At the regional level, we maintain our preference for Latin America over Emerging Asia, despite the smaller valuation gap between the regions.

Within fixed income, we continue to recommend a neutral position on government bonds relative to cash. However, within other segments in the asset class, we prefer to own corporate debt, where we see greater value opportunities.

For currencies, the fiscal crisis in peripheral European countries continued to weaken the EUR despite the announcement of a massive Eurozone / International Monetary Fund support package for the region. Thus it is likely that heightened volatility will continue. Valuation measures are not currently providing any strong signals, therefore our currency recommendation continues to be for neutral positions, as we prefer to take active positions where we have greater conviction.

Macro Assessment

Economic growth is likely to be positive in 2010, but there are still a number of question marks regarding its sustainability.

US:

The US economic recovery is on track, but concern regarding its strength prevails.

There were further signs of recovery in the US manufacturing sector with the ISM manufacturing index coming in at 59.7 in May, above the market expectation.

Furthermore, the retail and consumer sectors showed notable improvements, suggesting the recovery has spread more broadly.

However, the unemployment rate remained high, at 9.7% in May. In addition, the US leading indicators unexpectedly slipped by 0.1% in April, fuelling concern that the pace of the economic recovery may ease.

On the whole, Consensus Economics increased its forecasts for 2010 GDP growth to 3.3% (+0.1%) in May, but left its estimate for 2011 at 3.1%, reflecting the concerns surrounding the sustainability of growth.

Turning to inflation, CPI rose only 2.2% y-o-y in April, which was below the March reading and the consensus estimate of 2.4%. The rate continued to reflect high levels for energy prices, up 20.9% y-o-y. Indeed, the CPI ex food and energy rose by a moderate 0.9% y-o-y, lower than expected by consensus.

Europe:

Economic activity remained mixed for the Eurozone, amid fears of sovereign risk contagion and little improvement in the consumer sector.

The developments surrounding the debt issues in Greece and in other Eurozone countries continued to dominate the economic newsflow in May.

A commitment to provide €110 billion of emergency loans to Greece was finalized, whilst a €750 billion rescue package for the whole region was also agreed.

Eurozone GDP growth was modest in 1Q 2010, coming in at 0.2% q-o-q. Unemployment stayed at an elevated level of 10%, and March retail sales were still down 0.1% from a year ago.

Having said that, there was some improvement in the region. The PMI services index rose to 56.0 according to initial May estimates and industrial production beat forecasts, coming in at 1.3% m-o-m in March.

Turning to inflation, CPI readings continued to highlight subdued price activity, coming in at 1.5% y-o-y and 0.8% y-o-y in April for the 'all items' and core index respectively.

UK:

The recovery in economic activity gained momentum in the UK but concerns regarding the country's fiscal challenges continue to weigh on the outlook for economic growth.

Manufacturing continued to be a key driver of the rebound, with the PMI Manufacturing index staying at 58 in May, beating the consensus estimate.

Improvements were also seen in the retail and consumer sectors, with the nationwide consumer confidence index climbing to 74 in April, above both market expectations and the March reading. In addition, retail sales (ex auto fuel) remained solid, up 3.0% y-o-y in April.

In the labour market, the claimant count of unemployment fell to 4.7% in April, thanks to an increase in hiring from the manufacturing sector.

However, despite the quick formation of a coalition government following the elections and its clear commitment to immediately tackle the country's deficit, the risk of fiscal drag continued to weigh on the outlook for economic growth.

Y-o-y inflation jumped to 3.7% in April, up from 3.4% in March. Transport prices remained a key contributor to the CPI index 12-month rate, adding 1.7 percentage points to the overall figure. However, the BoE unanimously maintained its reference rate at 0.5%.

Japan:

Difficult labour market conditions and rising government debt remain a concern in Japan, but overall economic activity is showing positive improvement.

Japan's economy continued to show signs of improvement in May, with GDP growth coming in at 1.2% q-o-q for 1Q. The manufacturing sector remained a key driver of the rebound, with Japan PMI Manufacturing index rising to 54.7 in May and industrial production up by 1.3% m-o-m in April.

However, consumer spending remained weak. Overall household spending dropped by 0.7% y-o-y in April, against a 2.5% expected increase by the consensus and a previous reading of 4.4% y-o-y in March.

In the labour market, data was disappointing as unemployment rose, with the jobless rate coming in at 5.1% in April.

Furthermore, the growth in bank lending continued to fall in April, to 1.8% y-o-y, indicating that the climate of business confidence and investment in Japan is still mixed.

Consumer price indices declined more than expected in April, by -1.2% y-o-y and -1.6% y-o-y for the all items and core index respectively. Whilst the faster than expected fall was largely driven by the Japanese government's decision to cut high school tuition fees, the readings continue to highlight the weakness in the nation's consumer sector.

Emerging Markets:

Economic activity continued to impress in emerging economies, but a potential acceleration in monetary policy tightening remains a cause for concern.

Manufacturing activity was strong. In Brazil, industrial production grew more than expected by consensus, up 17.4% y-o-y in April, whilst in many Asian countries, PMI indices were well above the 50 mark, which indicates a solid expansion of the sector.

Furthermore, exports, a key driver of economic growth for these economies, were remarkably strong in April, particularly in Asia. In China and Korea, exports growth came in at more than 30% y-o-y, whilst in India and Taiwan, they reached an impressive 54.1% y-o-y and 47.8% y-o-y respectively.

Consumer demand was robust in Asia and Latin America and showed signs of recovery in Russia.

That said, unlike many developed economies in the West, which have kept interest rates at record lows, policymakers in Asia and Latin America have already begun tightening. This would impact the pace of future economic growth.

Turning to inflation, CPI y-o-y rates continued to increase in Asia and Latin America. In China, the y-o-y CPI index came in at 2.6% in April from 2.3% a month earlier, whilst in Brazil, the April IPCA CPI y-o-y rate climbed to 5.6% against 5.2% in March.

In contrast, we continued to see more muted readings for Eastern Europe. For example, in Russia, the y-o-y CPI fell to 6.0% in April from 6.5% a month earlier. Similar moves were seen in Poland and Hungary.

Country	Budget Deficit (% of GDP)	Government Debt (% to GDP)
Portugal	9.4	76.8
Ireland	14.3	64.0
Italy	5.3	115.8
Greece	13.6	115.1
Spain	11.2	53.2
UK	11.5	68.1
US	11.2	83.2
Japan	7.4	217.6 ^F

Source: Bloomberg, Eurostat, OECD, IMF. F=IMF estimate. Data as of 31/12/2009

Equity Markets

Global Developed Markets:

We retain a moderately cautious view for equity markets relative to cash. On the whole, the commitment from policymakers in the developed world to keep interest rates at the current low levels is likely to maintain ample liquidity for equities. However, given analysts' ambitious forecasts for earnings growth in 2010, the risk for negative earnings surprises continues to weigh on the outlook for the asset class, particularly if measures of fiscal austerity lead to a slowdown of growth in the second half of 2010.

US:

The rebound in global economic activity is likely to continue, leading developed economies like the US to see (moderately) positive GDP growth in 2010 and 2011.

However, we expect equity markets to remain volatile, particularly as investors continue to focus on the newsflow regarding sovereign debt risk.

Following the political commitment by individual developed countries to tackle growing debt problems, there are strong concerns over the impact of austerity measures on global economic growth.

Turning to the corporate outlook, earnings growth estimates continued to rise, bringing the forecast for companies in developed markets to 33.2% for 2010. Combined with the mixed prospects for consumer demand in this part of the world, this increases the risk for disappointment in earnings growth.

Europe:

While economic activity continued to recover in both the UK and the Eurozone, concerns over the sovereign debt situation are ongoing.

In addition, unemployment remained high and consumer demand mixed, supporting our view of only moderate economic growth in 2010.

We remain concerned about the estimates for earnings growth for these regions and elsewhere. Analysts' forecasts are particularly high, despite the ongoing mixed outlook for consumption and impact of any fiscal austerity programmes.

That said, with both the European Central Bank and the Bank of England leaving their interest rates unchanged and the ECB also revealing that it would assist dysfunctional bond markets by purchasing sovereign debt, we expect ongoing liquidity to be supportive.

Japan:

The economic recovery is progressing in Japan, helped by a strong rebound in manufacturing and trading activity. However, the need for fiscal consolidation and the ongoing weakness in consumer demand are still concerns.

In mid-June, Japan will unveil a fiscal plan to rein in its debt. This is likely to maintain high volatility levels in Japanese equity markets, especially as investors increasingly worry about how governments will balance the need for economic support and the need for greater fiscal discipline.

From a valuation perspective, Japan's equity markets are trading in neutral territory; yet, such valuations reflect forecasts for earnings growth in 2010 that are at record high levels, increasing the potential for negative surprises.

As normalisation of monetary policy is still some way off, this should maintain high liquidity for equity markets.

Balancing on one hand the supportive liquidity picture and on the other the risk to earnings, we recommend a moderately cautious stance relative to cash.

Global Emerging markets:

Our overall view on global emerging markets remains neutral compared to other equity markets and modestly cautious against cash, in line with our view on equities overall.

Although growth is robust, the risks look to be on the downside. Furthermore, consensus earnings estimates are at the upper end of their historic range, suggesting greater probability for negative than positive surprises.

We continue to prefer Latin American to Emerging Asian equities primarily on valuation grounds.

We have closed our tactical position in Turkish equities as their valuation discount to emerging market equities overall has narrowed.

Asia ex Japan:

The strength of the economic recovery in Asia-ex Japan is likely to continue, particularly as the rebound in domestic activity progresses. However, with potentially more monetary tightening along the way, there is still concern regarding the sustainability of such levels of growth.

Of additional concern, inflation levels continued to worry, providing more reasons for monetary and fiscal tightening. In China, y-o-y change in CPI came in at 2.6% in April from 2.3% a month earlier.

Turning to valuations, the recovery in consumer demand may justify analysts' optimistic forecasts for earnings growth in Asia. However, given the weakness of consumption in developed economies and the likelihood for a normalisation in GDP growth levels, the risk for negative surprise remains.

Therefore, in line with other equity markets, we retain a cautiously underweight stance on Asian equities.

Latin America:

Latin America held up better than other regions in May (-4.4% MSCI Latin America) although not because of the dominant Brazilian market (MSCI Brazil -6.2%). Other markets in the region were down much less (MSCI Mexico -1.3%) or even slightly positive.

Inflation is a key concern in Latin America, which has prompted the Central Bank of Brazil, to increase its reference rate, known as the SELIC rate, by 75bps to 9.5% in May, more than the market expectation.

On the whole, given our expectation for potential positive surprises in macro-economic performance for the region and relatively supportive valuation levels, we continue to prefer Latin American to Asian equities.

Middle East:

The economic outlook for the MENA economies is positive and improving, largely driven by the support from fiscal and monetary stimulus programmes.

Government investments, especially in infrastructure projects have contributed to boost domestic demand in the near term in many MENA economies.

That said, there are a number of headwinds to a sustainable recovery for the region.

In addition, the valuations of MENA relative to other Emerging Markets are attractive. However, we recommend a moderately cautious stance relative to cash, due to broader issues relating to the sustainability of the imminent global recovery.

Fixed Income

Eastern Europe:

Manufacturing activity was strong in Eastern Europe during the month. For instance, Russia's PMI manufacturing index rose to 52.1 in April, and industrial activity picked-up in Poland and Turkey.

That said, in Eastern Europe, structural weakness, particularly in labour markets, continued to weigh on the prospects for consumer demand in many economies.

For example, unemployment rose to 10.6% in 1Q in Poland, whilst consumer confidence dropped to -11 in May in Czech Republic.

Nonetheless, unlike Asia and Latin America, inflation continued to see more muted readings for Eastern Europe. For example, in Russia, the y-o-y CPI fell to 6.0% in April from 6.5% a month earlier. Similar moves were seen in Poland and Hungary.

Sovereign USD:

Recent events in Europe and the impact of more fiscal austerity on global economic growth are likely to fuel ongoing volatility across various asset classes.

In contrast to April, implied probability in the futures market shows that the majority of market participants now expect no change to the Federal Funds rate for the rest of 2010.

Therefore, in line with our view, the likelihood of a rate increase occurring in the second half of 2010 has slipped.

The US deficit situation continues to worsen. However, while the US remains a heavily indebted nation and the supply of Treasuries is likely to remain high, this is currently balanced by strong demand from safe-haven buying activity and a preference for USD assets.

Overall therefore, we continue to recommend a neutral position in US Treasuries relative to cash.

Sovereign EUR:

We retain our neutral allocation in Eurozone government bonds relative to cash. The market has reacted positively to the rescue package proposed by the IMF and the European Central Bank.

However, details of the emergency package have yet to emerge and concerns over a lack of cohesion among European policymakers remain.

Elevated unemployment is keeping a lid on consumption, which remains stifled at best. The May Consensus Economics 2010 forecast for consumption growth in the Eurozone is unchanged, at a weak 0.2%, which should contain inflation and enable the low interest rate environment to be kept, a supportive factor for government bonds.

On average, yields appear to reflect already the risk associated with the fiscal deterioration in the near term, therefore a neutral position vis-à-vis cash seems justified. However, our preference within fixed income remains corporate debt.

Investment Grade Corporate:

On the whole, low inflation expectations, the commitment of major central banks to keep interest rates lower for longer and ongoing strength in companies' earnings results are likely to keep demand for investment grade corporate bonds fairly robust.

Low interest rates are likely to fuel an ongoing search for yield, leading to a continued investor preference for riskier fixed-income assets.

Corporate spread levels remain attractive versus government bonds, but after substantial spread compression during 2009, income is likely to be the main driver of returns going forward.

Our benign outlook for growth in developed economies and our forecast that interest rates will continue to be kept low are supportive for fixed income generally, including corporate bonds. Overall, we maintain our positive view on the asset class.

High Yield:

Relative to the performance of equity markets, our decision to retain a positive view on global high yield bonds has continued to prove rewarding in May and since the year started.

The major central banks in the Western world reiterated their intention to keep low interest rates, which on the whole is likely to continue to send capital in search of yield, a supportive environment for high yield bonds.

Default risk is likely to be meaningfully lower over the course of the year. Furthermore, valuations remain attractive when compared to implied default rates.

Overall, we re-iterate our positive view on the asset class.

USD-denominated Emerging Markets:

On a valuation basis, emerging-market debt continues to look less attractive than high-yield corporate debt.

Sovereign credit quality across the developed world is coming under question as public finances worsen. Whilst not directly involved, emerging-market debt could suffer if the situation worsens in the Eurozone.

Overall, we maintain our negative stance on USD denominated Sovereign Emerging Market debt relative to developed market corporate debt.

Global Inflation-Linked Bonds:

The outlook for inflation remains uncertain globally, particularly in the long term. In developed economies, inflation is expected to be relatively contained in the near term, as high unemployment, compression in salaries as well as ongoing risks to a sustainable recovery are likely to weigh on consumption. In the long term, however, there is more uncertainty as to how the commitment and speed of central banks to withdraw quantitative easing and reduce liquidity support will affect inflation.

For inflation linked bonds in developed markets, from a valuation perspective, break-even inflation levels **have risen significantly since early 2009, making the case for the asset class less compelling than a year ago. Therefore, we recommend a moderately negative allocation against nominal bonds.**

Other Investments

Oil:

The oil price fell by over USD15 in May amid an evolving Eurozone debt crisis and sell-off in global equity markets. Supply and demand dynamics remain balanced, in line with global growth prospects. However, the moderate level of economic activity on the whole is likely to continue to keep oil demand at subdued levels, justifying our USD 65-85 price range.

Gold:

The gold price rose by 3.7% in May, amid the ongoing economic uncertainty surrounding financial markets. In addition, concerns over the future inflation associated with the US government borrowings and the confidence in the USD as a reserve currency also contributed to the good performance.

However, there are several reasons to expect limited upside to the current gold price. First, money supply growth remained generally low, especially in the US, at 1.6% y-o-y in April. Secondly, inflation in developed countries was generally muted whilst the USD continued to strengthen.

Commercial Real Estate:

The UK remains the most attractive unlisted market, based on valuations and supporting investor demand. However, the rental growth outlook remains weak and we do not expect to see rental growth in the short term.

Given the recent market performance of this segment, we have trimmed our outlook of prospective returns slightly. Nonetheless, the view of the UK remains positive in the short term.

Turning to Asia Pacific, property markets are benefitting from relatively strong economic growth which, other things being equal, is good for real estate. The problem is that some markets like Singapore are experiencing oversupply.

In the US, there is evidence that the unlisted market is at or close to the bottom, with wide variations from city to city, however.

Finally, the picture for continental Europe continues to be mixed, with wide variations at the country level. At the country level, France and the Nordics look attractive, whilst the situation Eastern Europe, Spain and Greece is more troublesome.

Currency

The USD benefited from investors' increased risk aversion during May, rising by 8% against the EUR, 5.1% versus the GBP, 10% relative to the AUD and 4.7% against the BRL. But against the JPY, it fell 2.8%.

The fiscal crisis in peripheral European countries continued to dominate news and undermine the EUR despite the announcement of a massive Eurozone/IMF support package for the region.

The German ban on naked short selling of certain EUR-denominated assets increased the negative sentiment regarding the EUR.

Heightened volatility is likely to continue. Valuation measures are not giving any strong signals at present and therefore our currency recommendation continues to be for neutral positions, as we prefer to take active positions where we have greater conviction.

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