



MONTHLY REPORT

JULY 2010

Unbelievably, the first half of 2010 is now complete! Despite equity markets performing reasonably well over Q1, we have seen a decline in Q2. This has been mainly attributable to issues in Greece/Europe.

After a steady advance through the first quarter the market was thrown into disarray as the European sovereign debt crisis erupted and investors grew fearful the economy was in very real danger of tipping back into recession.





















The prospect of a double dip (W-shaped recession) looms once again, particularly as the yield curve continues to flatten out across most of the developed world. The fall in leading indicators is fuelling fears of a recession in H2, or at least a marked slowdown of the US economy.

We believe that the risk of falling back into recession in H2 is low. The real trigger for a double dip, in our opinion, is a tightening of monetary policy, which we are unlikely to see in the US before the second half of 2011. We cannot rule out the possibility that there will be a quarter of negative growth during the upturn and economies typically slow down at the end of the inventory cycle. Demand should nevertheless be driven in part by business investment

Global economic growth remains strong but is becoming increasingly unevenly spread. The US, Emerging Asia and Brazil are the leaders, while Europe trails well behind and there are still likely to be downward revisions.

Our Long/ Short Equity recommendation is, therefore, raised back to overweight. In the current market environment, beset by renewed upheavals, the Long/ Short Equity style has the appeal that it is a simple and easy to execute strategy. This investment strategy should continue to perform the second half of 2010.

GLOBAL SCORECARD

flag	Country	Index	Last	Q1%chg.	Q2%chg.	YTD% chg.
	China	Shanghai Composite	2,398.37	-5.13	-22.86	-26.82
	Italy	FTSE MIB	19,311.75	-1.72	-15.48	-16.93
	Japan	Nikkei	9,382.64	5.15	-15.40	-11.04
	Russia	RTS 1 Interfax	1,334.08	8.75	-15.08	-7.65
	Israel	TA 25	1,064.17	7.43	-13.64	-7.23
	U.K.	FTSE 100	4,916.87	4.93	-13.43	-9.16
	Brazil	Bovespa	60,935.90	2.60	-13.41	-11.16
	France	CAC 40 Index	3,442.89	0.96	-13.36	-12.54
	USA	S&P 500	1,030.71	4.87	-11.86	-7.57
	Australia	S&P/ASX 200	4,301.50	0.10	-11.77	-11.68
	Switzerland	SMI-Index	6,128.06	5.00	-10.84	-6.38
	Argentina	Merval	2,185.01	2.28	-7.95	-5.85
	Mexico	MXSE IPC	31,156.97	3.57	-6.34	-3.00
	Canada	S&P/TSX Composite	11,294.42	2.48	-6.17	-3.85
	Germany	DAX Index	5,965.52	3.29	-3.06	0.14
	Sweden	OMXS30	1,005.93	7.29	-1.48	5.70
	South Korea	KOSPI	1,698.29	0.60	0.32	0.92
	India	Bombay Sensitive 30	17,700.90	0.36	0.99	1.35
	Colombia	ICBG	12,425.91	4.45	2.54	7.10
	Chile	IPSA	4,065.29	5.07	8.03	13.51

Data source: CNBC Analytics & Thomson Reuters

OUTLOOK FOR EQUITIES

Despite the present burdens, we consider equities in most developed markets to be attractive. The recovery of the world economy will likely continue during the rest of 2010 and in 2011. The US and the emerging markets especially should be the main drivers. Corporate earnings may continue to develop well in this environment. After the good Q1 2010 reporting season, analysts raised their already high growth estimates for 2010 appreciably again.

Asia continues to be the most attractive region thanks to strong growth coupled with moderate inflation, solid fundamentals (stable budgets) and high competitiveness. Lower exports to Europe should be compensated by growth in intraregional trade, export to the US and widening market shares. In South Korea the political conflict with North Korea is unlikely to be a lasting problem for the equity market. Thanks to its strong competitive position and buoyant global demand, South Korea generally, and the technology and automobile sectors especially, should continue to gain market share. Among the large EMs, India is suffering the least from the global uncertainties.

Consumption and investment demand are very strong. In Latin America, corporate earnings in Brazil should be boosted in the near term by very buoyant domestic demand and growing trade with EM Asia. The economy also grew very vigorously in Q1, with growth of 9% yoy. However, this means the overheating risks are also on the increase so the central bank is likely to hike rates a few more times. Mexico, on the other hand, is benefiting especially from the upswing in the US and for the time being can combine a vigorous upswing with moderate inflation. In Eastern Europe, the risks predominate because of internal weaknesses (private sector debt) and the close trade and banking sector links with Western Europe.

EUROPE

The fiscal austerity process in the smaller countries, and as from 2011 also in the core countries, dampens the growth outlook despite the positive effect of the weak euro. In this environment, the export heavyweights (Germany) will fare best, while the economies beset by heavy debt and poor competitiveness (Greece, Portugal, Spain) will have little room for growth also in 2011. By contrast, in the US and the large emerging markets, both exports and domestic demand are booming.

From the perspective of a euro based investor, the most prominent risk scenario is an escalation of the debt and confidence crisis in Europe accompanied by deflationary tendencies. The main problem is the very weak growth outlook, which is aggravated still further by the necessary austerity policies, in other words a vicious circle of low growth and rising budget deficits

BONDS

Relative attractiveness of emerging markets While we expect setbacks in developed market sovereign bonds, the outlook for emerging market (EM) local currency sovereign bonds is far more attractive. Many markets offer much higher return expectations (higher coupons) at reasonable risk. The much lower debt and healthier budget positions keep the default risk low, while strong economic growth makes debt servicing no problem. This holds especially for EM Asia and some Latin American countries but not for Eastern Europe, where the debt indicators and the interdependence with the west European banking sector and foreign trade harbours risks

FURTHER EURO WEAKNESS EXPECTED

As a result of the developments over the past months, early rate hikes in Europe have become less likely. We expect the ECB to see that the supply of liquidity to the markets and especially to the banking system is kept high, also outside the framework of its interest rate policy, and will continue to do so for some time yet. Recently, with direct purchases of government bonds, another – albeit controversial – move was taken to support bond markets in the European periphery. All of that makes the euro less attractive versus the US dollar, at least in relative terms.

We expect a further successive weakening of the euro and see the EUR/USD exchange rate at 1.10 EUR/USD in twelve months' time. Lately, it is not just the weakness of the euro; the dollar, perceived as a safe haven, has also benefited from the current uncertainties

GOLD

Gold attractive as a safe-haven instrument The escalation of a further crisis would probably be needed for there to be a strong rise in the gold price. This is a situation we do not expect. For our precious metals we prefer platinum, however a combination of Gold, Silver, Platinum is preferred for diversification purposes.

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