

# GLOBAL MARKETS

Asset Management Updates from ADCB  
FEBRUARY 2010, Issue 2

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## Welcome to February's asset management update from ADCB

Dear well-informed investors,

The optimism with which we welcomed the first month of the new decade unfortunately lost a large part of its momentum into the middle of the month as the reality of what some commentators are referring to as a "statistical recovery" took hold of investor hearts and minds.

**"Excess generally causes reaction, and produces a change in the opposite direction, whether it be in the seasons, or in individuals, or in governments." - Plato**

A major catalyst of the reversal of sentiment was undoubtedly an address by US President Barack Obama in which he outlined his plans to curtail the size and investment strategies of Wall Street banks. This move, the latest in his administration's aggressive plans to overhaul the US financial

system, seeks to "rein in the excess and abuse that nearly brought down [the] financial system". This was, however, not taken very positively by the market, and shares of banking stocks were dumped on expectations that increased government intervention will have a negative impact on earnings. The excess and abuse to which President Obama was referring in his address relates to the excessive leverage in the global financial system which culminated in the bankruptcy of Lehman Brothers on September 15, 2008. The deleveraging process currently underway likely still has some distance to run and its consequences won't be fully understood for some years to come.

It is perhaps fitting to be quoting Plato at this juncture, given the other major source of volatility over recent weeks has been the deteriorating credit situation in Greece and heightened probability that the EU nation will default on its debt obligations. Greece is running a budget

deficit of 12.5% of GDP with a debt-to-GDP ratio of more than 100%; the Maastricht treaty, which established the EU, caps these ratios at 3% and 60% respectively. Substantial fiscal discipline is required now to prevent a major catastrophe, yet given the country's history of strikes and protest this is unlikely to be well received by the man on the street. The EU response is being closely watched in what will certainly be a test of the monetary union's strength and stability. More on this and other themes follow in the newsletter.

As part of our ongoing commitment to deliver innovative investment product and services, we are excited to unveil our new Systematic Investment Plan (SIP) which will allow investors to contribute as little as \$500 per month into a regular investment vehicle. Investors can select from our list of preferred funds which span multiple asset classes and geographies.

To learn more about our SIP and other ADCB investment products and services please contact your ADCB Relationship Manager or SMS INVEST to 2626.

Kind Regards,

**Mark Friedenthal**  
Head of Asset Management



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## Global Market Performance

The DJIA, S&P 500, and NASDAQ fell 3.46%, 3.70%, and 5.37%, respectively, in January due to calls by President Obama to reduce risk-taking by limiting financial institutions' size and trading activities, and concerns the Federal Reserve may announce further plans to unwind current stimulus measures. Moreover, poor results from companies including Alcoa Inc. and JPMorgan Chase & Co. weighed on investors. In Asia, the Hang Seng tumbled 8% on worries that moves to tighten China's monetary policy will curb investment. Moreover, a decline in Hong Kong's residential mortgage loan approvals in December dampened investor sentiment

The Nikkei slipped 3.30% hit by negative earnings surprises from major firms, a stronger yen exerting pressure on exporter shares and weaker Japanese retail sales, which unexpectedly fell for a sixteenth consecutive month in December as smaller pay checks and deteriorating job prospects weighed on consumers. The Sensex declined 6.34% on weak

global data, concerns regarding monetary policy tightening in major economies, and disappointing Q3 2010 results from some larger companies. In Europe, the FTSE fell 4.14% after the European Commission stated that it thought Greece hadn't done enough to rein in its budget deficit at 12.7% of GDP in 2009. A surge in inflation in the UK to 2.9% in December, up from an annual rate of 1.9% in November, also contributed to the decline.

In the GCC region, UAE continued to disappoint in anticipation of subdued fourth quarter earnings. Consequently the ADX and DFM slipped 4.02% and 11.84%, respectively. Conversely, the MSM 30 performed best rising 2.57% due to optimism on the Banking & Investment sector.

Gold, Copper, and Crude fell 1.11%, 4.14% and 8.15% respectively in January, with dollar appreciation restricting investment in commodities.

The dollar strengthened against major currencies on hopes that the US economy would grow satisfactorily during the fourth quarter. In addition, US consumer confidence rose in January to its highest level since September 2008, improving investor sentiment.

The yield on US Treasury 10-year notes fell last month as sharply lower Greek bonds spurred demand for their US Government counterparts.

The UAE corporate bond spread widened during the month as investor risk perception remained high. Consequently, HSBC/DIFX UAE Conventional US Dollar Bond Index and HSBC/ DIFX UAE Sukuk US Dollar Bond Index spreads increased 4.06 bps and 10.12 bps month-on-month, respectively.

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## Global Market Performance

### Index Snap Shot (World Indices)

Index	Latest	1M Change	1Yr Change	YTD
S&P 500	1,073.87	(3.70%)	30.03%	(3.70%)
Dow Jones	10,067.33	(3.46%)	25.83%	(3.46%)
NASDAQ	2,147.35	(5.37%)	45.44%	(5.37%)
Hang Seng	20,121.99	(8.00%)	51.54%	(8.00%)
Nikkei	10,198.04	(3.30%)	27.57%	(3.30%)
FTSE- 100	5,188.52	(4.14%)	25.04%	(4.14%)
Sensex 30	16,357.96	(6.34%)	73.57%	(6.34%)
MSCI World	1,119.54	(4.19%)	33.46%	(4.19%)
MSCI EM	933.59	(5.65%)	76.31%	(5.65%)
TASI	6,252.55	2.14%	30.55%	2.14%
DFM	1,589.97	(11.84%)	4.59%	(11.84%)
ADX	2,633.37	(4.02%)	16.74%	(4.02%)
KSE	7,025.30	0.29%	3.86%	0.29%
BSE	1,478.23	1.37%	(10.68%)	1.37%
MSM 30	6,532.16	2.57%	37.70%	2.57%
DSM	6,558.45	(5.76%)	24.85%	(5.76%)

### Commodities, Yields and Currencies

Commodity	Latest	1M Change	1Yr Change	YTD
NYMEX Crude	72.89	(8.15%)	74.88%	(8.15%)
OPEC	71.40	(6.29%)	73.26%	(6.29%)
Natural Gas	5.13	(7.91%)	16.09%	(7.91%)
Gold	1,083.00	(1.11%)	16.79%	(11.11%)
Platinum	1,501.30	2.83%	51.45%	2.83%
Copper	7,042.00	(14.14%)	126.72%	(4.14%)
Sugar	29.90	10.95%	135.25%	10.95%
Soybean	914.00	(12.08%)	(6.73%)	(12.08%)
Corn	356.40	(14.00%)	(5.96%)	(14.00%)
Wheat	474.00	(12.45%)	(16.55%)	(12.45%)
Rice	14.20	(2.51%)	20.65%	(2.51%)
Yields & Currencies	Latest	1M Change	1Yr Change	YTD
2Y US Treasury	0.82	(0.28)	(0.13)	(0.28)
10Y US Treasury	3.63	(0.06)	0.28	(0.06)
EUR	1.3863	(3.30%)	8.24%	(3.30%)
GBP	1.5990	(1.11%)	10.95%	(11.11%)
JPY	90.26	(3.03%)	0.48%	(3.03%)



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## Macro Economic Trends

### Debt woes for developed economies

Post-Lehman, policymakers worldwide adopted a do-whatever-it-takes approach as global demand and credit appetite simply imploded. In order to remedy the situation, central banks adopted an extremely soft monetary stance, while governments aggressively expanded their spending. Government finances were further burdened as many strategic firms thought "too big to fail", including AIG, Fannie Mae, Freddie Mac, RBS, HBOS, and Lloyds TSB, were either bought or provided with government financed bail out packages.

Supported by expanded government balance sheets, the global economy had begun to recover by the end of last year. However, in the meantime government fiscal deficit and debt positions, particularly in developed economies, had exploded. For example, the fiscal deficits of developed economies such as the US, UK, and Japan are expected to remain above 10% of the GDP for 2010 according to IMF estimates.

Moreover, their gross debt position as a percentage of GDP is expected to deteriorate to almost 100% by 2014. While the credit crisis is a key contributory factor in the deteriorating fiscal position, we believe the ageing population of these countries is likely to exacerbate the situation by exerting additional pressure on the fiscal position. According to the United Nations, in the US alone more than 10,000 baby-boomers will become eligible for social security and Medicare every day for the next two decades implying a disturbing dependency ratio imposing an enormous burden on public finances.

Conversely, governments in emerging economies are likely to manage their finances much better supported by rising domestic consumption demand and a recovery in exports to developed markets. Consequently, the IMF expects gross debt as a percentage of GDP to remain low in emerging economies compared to their more developed counterparts.



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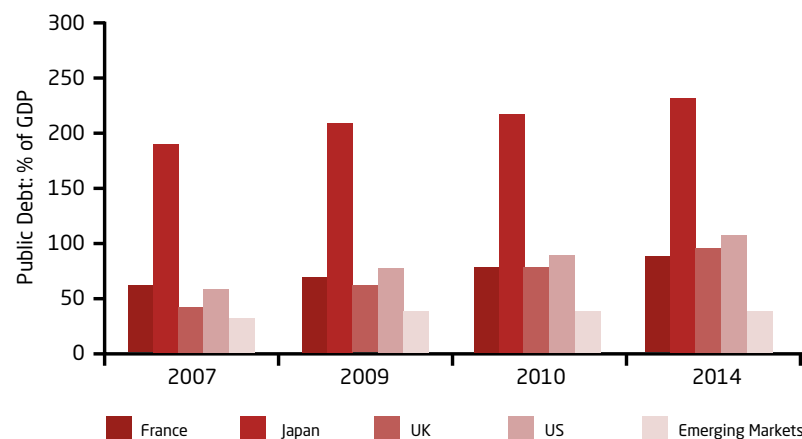


## Macro Economic Trends

Moreover, in our view economies in the Middle East, particularly UAE, remain robust. The financial strength of UAE reflects the Abu Dhabi government's sound balance sheet, supported by the financial assets of its Sovereign Wealth Funds, and the fifth largest oil reserves in the world (140bn boe). Further, we do not regard the UAE's external debt (USD 138.5bn) at 60.9% of GDP (Source: Moody's Investors Service) as excessive by global standards. Moreover, according to the IMF, the UAE maintained a fiscal surplus of around 22% of GDP in 2008. Given such strong fundamentals, UAE carries a high investment grade rating (Moody's: Aa2 with stable outlook).

With emerging markets set to enjoy a faster recovery in economic growth, we expect the economies that avoided the banking crisis during the sub-prime debacle, to gradually withdraw public stimulus measures ahead of developed economies. In addition, a steady rise in inflation, reflecting a strong recovery

in demand and rising commodity prices, could lead governments to ease fiscal stimulus measures. Still, developed economies may continue with them at least until mid 2010 given their more fragile recovery and greater need of fiscal support.



Source: IMF World Economy Outlook Oct 2009



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## Schroder ISF - Emerging Markets

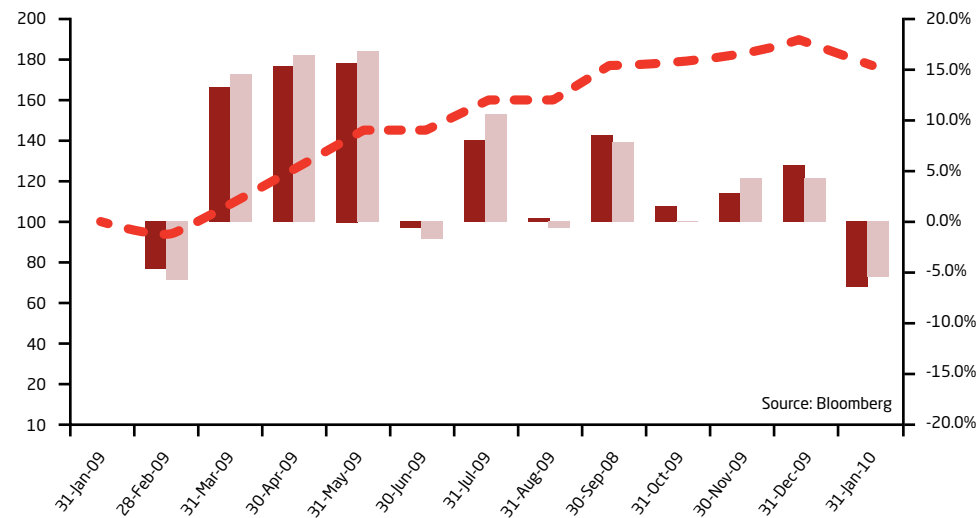
Schroder ISF Emerging Markets is an actively managed fund, which aims to add value in all market conditions relative to its benchmark, the MSCI Emerging Markets. It invests across a range of large, medium and small cap stocks, depending on the opportunities available at any given time.

Despite the strong performance of emerging markets in 2009, Schroders believe that the rally has further to go. Investors are increasingly recognising the structural change that has occurred in the global economy – it is the emerging and not the developed economies that are now driving global growth. Furthermore, economic fundamentals are much more robust in the

emerging world, the prospects for earnings growth are very strong and emerging markets are trading at a discount to developed markets. These advantages, coupled with favourable liquidity conditions, add up to a very positive outlook for these markets on a 12-18 month view.

Schroders has one of the largest dedicated emerging markets resources in the world. A team of 32 investment professionals with an average of 14 years experience manage \$19bn in emerging market equities\*.

\*as at 29th September 2009  
Source: Schroders



■ Schroder International Selection Fund - Emerging Markets, Month on Month (RHS)  
■ MSCI Daily TR Net Emerging Markets USD, Month on Month (RHS)  
- - - Schroder International Selection Fund - Emerging Markets (LHS)

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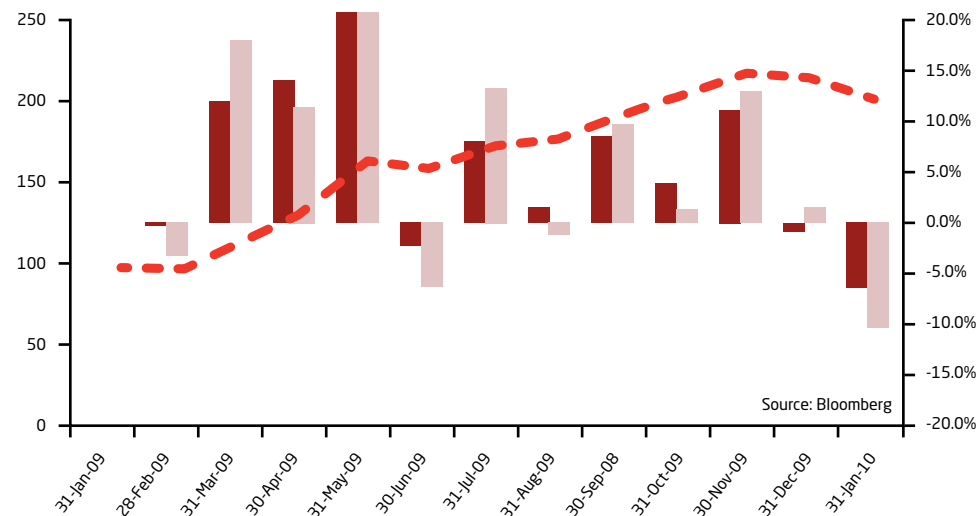
## JPM Global Natural Resources Fund

The JPM Global Natural Resources Fund, has been one of the best performing funds in the mutual fund world over the past decade, returning over 500% for investors. In fact, JPMorgan has been investing clients money in commodities for over 40 years and their chief investor, Ian Henderson is one of the most respected individuals in the Commodities world, currently investing over USD \$5 billion of clients money\*.

Emerging countries such as India & china are experiencing a period of economic development and growth which JPMorgan believe will last for

many years. With more and more people moving from rural countryside to the cities and increasingly more homes, roads, bridges, hospitals, schools and airports being built - this is creating a huge demand in commodities. However, the supply of commodities cannot keep up with this demand; this creates an excellent opportunity for JPMorgan to invest clients' money in commodities' companies which can benefit from the supply/demand imbalance.

\*December 2009  
Source: JP Morgan



— JPMorgan Funds - Global Natural Resources Fund, Month on Month (RHS)  
— HSBC Global Mining Index, Month on Month (RHS)  
- - - JPMorgan Funds - Global Natural Resources Fund (LHS)



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## Introducing the Systematic Investment Plan from ADCB

Setting up a systematic investment plan can be a great way to begin building wealth. Systematic investment plans allow you to “pay yourself first” by making regular investments from your current account or savings account.

Using a systematic investment plan is a wise strategy, particularly for first-time investors because it allows you to benefit from a principle known as “dollar cost averaging”. By investing the same dollar amount every month in a particular stock or mutual fund, you can reduce your cost basis over time. This allows you to buy more shares of a stock or mutual fund when shares are cheaper and fewer shares of the stock or mutual fund when the price is high. Over time, this can help lower the average price that you pay for your shares relative to the current trading price.

### The Investment Strategy:

Arrange a regular, disciplined investment in mutual funds and avoid the effects of market swings by taking advantage of dollar cost averaging.

### How Dollar Cost Averaging Works:

Dollar cost averaging is a strategy where you invest a fixed amount on a regular basis. Integrating this type of discipline into your investment approach ensures continuous investing, regardless of market performance.

### Why it Makes Sense:

With dollar cost averaging, you purchase more of your chosen investment when the price is low and less when the price is high. In a volatile market, you end up with a lower cost per investment than with lump-sum investing. By committing to regular investing, you can overcome the temptation to base investment decisions on emotional reactions to market activity.

In the example (right), an investor purchases \$500 of a stock during each time period. The average price is \$7.40, but his average cost is only \$7.00 (\$2,500 divided by 357).

Time Period	Amount Invested	Price	Number of Shares	Average Cost
1	\$500	\$10.00	50	\$10.00
2	\$500	\$8.00	63	\$8.89
3	\$500	\$6.00	83	\$7.69
4	\$500	\$5.00	100	\$6.77
5	\$500	\$8.00	62	\$7.00
<b>Total</b>	<b>\$2,500</b>	<b>\$7.40</b>	<b>357</b>	<b>\$7.00</b>

Speak to your ADCB Relationship Manager today for more information on how to start your Systematic Investment Plan.

**Double Advantage from ADCB - Earn 6%p.a. interest on AED 3month fixed deposit by investing an equal or more amount in an Investment Product at the same time. Choose from a diverse suite of Mutual Funds or capital protected products to achieve your investment objectives. For more details contact your Relationship Manager. Terms and Conditions apply.**



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## Performance Review

Fund House Performance								
Funds	Currency	NAV	1M	3M	6M	12M	36M	12M Volatility
<b>Equity Funds</b>								
M&G GLOBAL LEADERS-\$-A-ACC	USD	7.56	(3.57%)	0.53%	10.36%	44.00%	(23.87%)	22.78%
SCHRODER INTL EMERG MKTG-AAC	USD	11.45	(6.45%)	0.17%	11.38%	74.81%	9.88%	26.27%
M&G AMERICAN FUND-\$-A-ACC	USD	8.14	(2.54%)	2.24%	11.25%	37.98%	(21.04%)	19.43%
SCHRODER INTL EURO EQT-A-ACC	EUR	18.99	(4.38%)	0.32%	8.08%	27.54%	(30.34%)	23.85%
JPMORGAN F-JF PAC EQ-A-A\$	USD	11.83	(2.39%)	(0.25%)	5.06%	37.88%	(10.51%)	21.05%
SCHRODER INTL BRIC AC \$	USD	183.81	(8.07%)	(2.66%)	11.06%	76.37%	11.27%	27.68%
AL-NOKHITHA FUND-ACC	AED	3.87	(8.51%)	(20.86%)	(5.15%)	25.24%	(57.98%)	27.84%
ADCB-MSCI UAE INDEX FUND-ACC	AED	4.07	(9.96%)	(23.50%)	(7.29%)	43.31%	N/A	37.82%
ADCB MSCI ARABIAN MKT ID-ACC	USD	5.02	(1.57%)	(8.56%)	(1.76%)	27.41%	N/A	25.06%
<b>Fixed Income</b>								
BNY MELLON GL-GLOBAL BOND-\$A	USD	1.98	0.36%	(1.08%)	4.71%	9.79%	21.49%	8.84%
ING (L) RENTA-EM MK DB LC-XC	USD	54.10	0.22%	0.97%	3.19%	18.56%	16.72%	7.63%
SCHRODER INTL GL CORP BD-AAC	USD	8.20	1.23%	3.02%	6.77%	19.88%	17.31%	5.23%
<b>Commodities</b>								
DB PLATINUM-COMMODITY \$-1C	USD	19,216.02	(9.00%)	(3.34%)	1.90%	34.35%	28.61%	20.73%
JPMORGAN F-GLB NAT RE A ACC\$	USD	14.54	(6.19%)	2.54%	17.54%	98.09%	(2.15%)	29.29%
<b>Real Estate</b>								
HENDERSON HOR-G PROP EQTY-A2	USD	11.06	(5.06%)	0.36%	14.37%	52.55%	(36.73%)	32.83%
<b>Hedge</b>								
JPM INV-HIGH STAT N-A\$H	USD	158.08	0.48%	(0.55%)	(1.97%)	(3.87%)	N/A	3.37%
CAAM INVEST-VAR 4 EUR-C	USD	1,224.32	(0.12%)	0.55%	3.78%	10.10%	7.40%	2.83%
<b>Index</b>								
MSCI WORLD	USD	1,119.54	(4.19%)	1.21%	7.16%	33.46%	(25.38%)	21.23%
MSCI EM	USD	933.59	(5.65%)	2.11%	10.61%	76.31%	3.56%	28.11%
S&P GLOBAL REIT Index	USD	108.22	(4.55%)	2.24%	18.29%	39.53%	(50.11%)	32.80%
S&P GSCI Official Close Index	USD	4,176.22	(7.89%)	(5.68%)	(2.34%)	14.79%	(24.05%)	24.02%
US Cash Indices LIBOR Total Return	USD	175.11	0.02%	0.07%	0.17%	0.70%	9.64%	0.13%
MSCI UAE	USD	298.26	(9.38%)	(24.42%)	(10.10%)	34.22%	(43.72%)	32.19%



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