

- Global equity markets experienced their worst quarter since Q4 2008 with the FTSE World Index slumping down 14.7% in sterling terms (-17.3% USD/-10.6% EUR/-21.0% JPY). Volatility remained high amid fears of a euro zone meltdown, lack of a credible political solution, and growing evidence that Europe is heading for a recession. Markets rallied briefly after the German parliament voted in favour of bolstering the 440bn euro zone rescue fund and to give it new powers to buy bonds and recapitalise weak banks. Markets, however, quickly concluded that further measures would be urgently needed and resumed their downward trend. The prospects of Greece avoiding a debt default worsened. Emerging markets, despite generally stronger economic fundamentals, were not immune to the environment and sold-off due to significant capital outflows. More defensive areas, such as consumer staples and utilities, outperformed while banks and cyclically sensitive areas such as materials and industrials declined the most. Metals prices corrected sharply as copper fell to its lowest level in over a year and gold declined to a two month low. US bond yields continued to grind lower and the US dollar strengthened as investors avoided risk assets.
- Economic highlights:**
- The Federal Reserve announced “Operation Twist,” a plan to switch \$400bn of existing short-term Treasuries into longer-term maturities to push down long-term interest rates.
  - Switzerland’s central bank surprised markets by setting a ceiling of CHF1.20 against the euro in order to halt the currency’s steep appreciation, which was beginning to hurt the economy.
  - China’s manufacturing Purchasing Managers Index (PMI) registered its third consecutive month below 50, which typically signals an economic contraction. European services, manufacturing, and composite PMI’s all fell below 50 for the first time since mid-2009.
  - Conditions in the UK service sector appeared to deteriorate with the Markit/CIPS services PMI declining from 55.4 to 51.1 in August, the biggest monthly drop in a decade.
  - German retail sales tumbled 2.9% in August, their biggest monthly fall in four years.

Source: RCM as at 30 September 2011

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