

- The FTSE All Share fell during the quarter, returning -13.5%. The reason for the poor performance was a worsening macroeconomic outlook. In the US, a number of economic data releases suggested that the recovery in the world's largest economy was stalling. The Federal Reserve voiced concern, citing "significant downside risks to the economic outlook". Towards the end of the quarter, however, the US economic data was better, in particular the upward revision to the second quarter GDP estimate.
- The sovereign debt crisis affecting Europe's periphery continued to deteriorate. Borrowing costs for Greece rose to unsustainably high levels, suggesting some default in the future is very likely. It remains to be seen whether Portugal, Ireland and Spain will also need to default. The UK is in a better position due to a floating currency and a credible deficit reduction programme. There were a number of proposals to extend or expand the various pan-European and IMF bail-out and support mechanisms. The reaction of the markets was muted, suggesting that, as long as the situation continues to deteriorate, a large "shock and awe" solution may eventually be required.
- China's economy also began to exhibit signs of a slowdown. The source of the slowdown appears to be the property market, which began to slow following the authorities' attempts to clamp down on speculative activity. In recent years the Chinese economy has become very dependent on construction spending, so it is not surprising that the slowdown in the property market is starting to affect the wider economy.
- Against this backdrop, the economically cyclical sectors were the weakest, in particular banks and basic resources, the former falling as Eurozone fears escalated, and the latter as commodity prices fell. The strongest sectors were the defensives. The tobacco sector was actually up in absolute terms, while the food producers were flat. In the currency markets the big move was the US dollar, which rose strongly, up over 7% against the Euro and 3% against the Pound.

Source: RCM as at 30 September 2011

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