



Global equity markets, as measured by the MSCI World Index, were extremely volatile during the quarter, eventually returning a loss of -1.56%. Looking more closely at the quarter, one is able to see that in April the markets enjoyed a bounce from the negative first quarter, returning 5.21% and this rally continued into May. At the end of May global markets were up 1.87%. June, though, reversed this, with markets dropping -8.59% as fears of further financial crisis, economic slowdown and inflation gripped investors.

When looking at a sector breakdown for the quarter, there is a great divergence between those that delivered positive returns and those that posted negative returns. Leading the positive sectors were Energy and Materials sectors, 18.50% and 10.33% up respectively for the quarter. Utilities and IT were the other two sectors which also posted positive returns, while Financials led the markets down. Over the quarter the Financials sector dropped -12.42%, followed by Consumer Discretionary and Consumer Staples.

The majority of the gains seen in April actually occurred on the first day of the month. UBS led the European banking sector and overall market higher after announcing a new rescue package and \$19bn in writedowns. The move sparked hopes that the ailing bank and wider financial sector may have been reaching a turning point. Energy and Materials, the worst performing sectors in March, witnessed the strongest rebound in April. Crude oil continued to reach record highs, with WTI crude touching \$120 a barrel. Mining saw large gains for the greater part of the month for various reasons, ranging from increases in ferrochrome prices and coking coal contract increases to further M&A speculation. Mid-month markets were hit by turbulence after General Electric announced poor earnings, causing fear that there may be more a wider impact on corporate earnings to come.

At the start of the quarter central banks continued to show their willingness to support the economy and financial system with both the Fed and the Bank of England cutting their interest rates by 25bp to 2% and 5% respectively in April, while in the UK, the government announced a plan to swap Government Bonds for mortgage-backed securities in an effort to encourage more lending.

During May, crude oil continued to rally for most of the month, with WTI crude breaking a record high of \$135.09 a barrel. This further spurred concern over rising inflation levels as the media decried the knock on effects to the general public of rising global energy and food costs. Figures released in the UK showed CPI

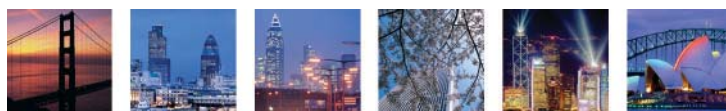
up to 3% for April, right at the top end of the Bank of England's 1-3% target and this almost definitely signalled an end to the recent rate cutting cycle despite the weakening economic growth.

The markets were gripped with negative news and sentiment during June. At the centre of investors' angst was the perception that the credit crisis has not yet played itself out. These fears were supported by Goldman Sachs analysts who announced they did not expect the credit crisis to peak before 2009, and that US banks might need to raise \$65 billion of additional capital (on top of \$159 billion raised so far) to cope with additional losses from the sub-prime fallout.

Further adding to negative sentiment, Moody's downgraded the credit ratings of Ambac Financial and MBIA, citing their limited ability to raise new capital and write new business while street analysts weighed down on banks, cutting their price targets for, among others, Goldman Sachs, Citigroup and Wachovia.

Rising inflation levels continued to dominate headlines as the ECB faced the highest inflation levels for 16-years of 3.7% in May. The European Central Bank President Jean-Claude Trichet commented that officials may raise interest rates early in July and in America, although the Fed left rates at 2%, it did also indicate that it viewed downside risks to growth as having eased and the balance has now tilted to upside risks to inflation. Meanwhile the Bank of England Deputy Governor, John Gieve, added to the solemn mood announcing that he believed the worst was not over for the UK economy, which would weaken for the rest of the 2008. The Royal Bank of Scotland extended this sentiment, advising clients to brace themselves for a full-fledged crash in credit markets over the next three months as inflation paralyses the major central banks. "A very nasty period is soon to be upon us – be prepared," said Bob Janjuah, the bank's credit strategist.

Through out this month though crude oil continued to rally, with WTI crude breaking a record high of \$143.67 a barrel as concerns Israel may attack Iran over its nuclear program and disrupt supply from OPEC. Not surprisingly, oil related stocks were the most resilient sector in June.



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