



August Bond Bulletin

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August was an exceptionally strong month for global fixed interest. Fears of a double dip recession and the prospect that official interest rates would not rise much over the medium term pushed government bond yields to multi-year lows. In the UK, government bonds returned 4.4% whilst sterling credit bonds returned 4.2%; index linked bonds performed well despite the fall in implied breakeven inflation rates (duration effect). Within credit markets the real estate, utility, consumer and ABS sectors led the way whilst subordinated financial bonds were weak, although still producing a positive return.

In the month we generally increased exposure to ten year bonds whilst retaining an underweight position in short dated gilts. We took advantage of the strong performance of index linked bonds to reduce effective exposure. In credit markets there were few new issues and liquidity was poor; we generally increased exposure to ABS and believe that several RMBS (Residential Mortgage Backed Securities) issues are attractively priced e.g. Fosse and Arkle.

RLAM funds are generally positioned for a continued improvement in credit markets and we expect government bond yields will rise from present levels. Although exposure to index linked bonds was reduced we generally prefer them to conventional gilts.

Source: rlam as at 6th September 2010 unless otherwise stated.

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