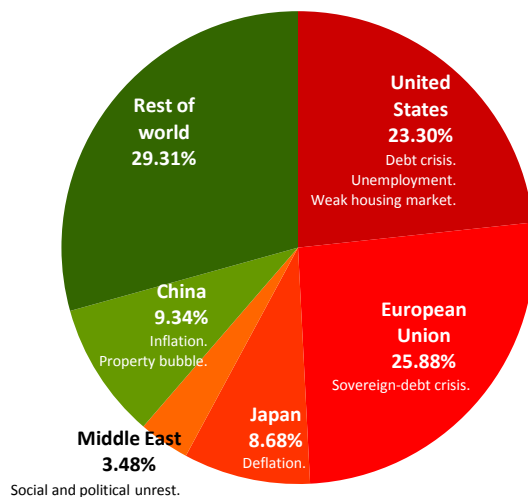




A Message from IPP

Last month, we had boldly suggested a flight to safety, reducing risks by cutting our equity exposures. We continue to stand by this decision as volatility and uncertainty loom. It seems trends have turned bearish, with every rebound being, simply, a rebound, rather than some definitive reversal towards an uptrend. The debt crises in Europe and the US, coupled with concerns of a slower-than-initially-expected global economic recovery, have taken a toll on investor confidence in recent weeks. At time of writing, the unemployment rates of several troubled economies are as follow: Greece – 15.0%, Ireland – 14.0%, Portugal – 12.4%, Spain – 21.2% and the US – 9.1%. Clearly, the economic fundamentals are not in good shape.



This chart reflects the world's global economic condition on the basis of GDP sizes. The question at hand is this: is 40% of the world capable of lifting up the other 60%? It is a real feat and we foresee a prolonged period of lacklustre performance amid anaemic growth.

However, should the major economies decide on more monetary stimuli to boost growth and employment, such as a QE3 in the US and/or an equivalent in the euro zone, global markets are likely to buy it at least for a while. That being said, we must highlight that the effectiveness of these measures have fallen below past expectations, so any such initiatives should be evaluated with a pinch of salt.

We can expect some form of stabilisation in the near term for a minor rebound. Volatility will inevitably heighten as everyone is jittery, with every positive or negative piece of news amplifying market movements. Though valuations are cheap and corporate profitability still healthy, the focus has shifted towards volatility. If these are costing you sleep, please curb your risk exposure.



Albert Lam
Investment Director
IPP Financial Advisers Pte Ltd

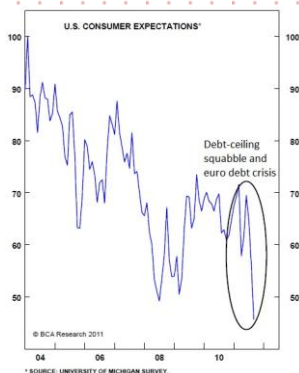
World in Perspective

Debt – The New Ugly

Despite Standard & Poor’s downgrade of the US’s credit rating to AA+, demand for Treasuries have surged and investors are confused with AAA-rated companies yielding more than US government debt. The US and euro zone economies are slowing and sentiments have nosedived, with markets now anxiously seeking government action to help break their falls.

- **Faltering recovery**

Key macro indicators are suggesting bleak growth in the coming months, exacerbated by a plunge in investor confidence thanks to Washington’s wishy washy decision-making over the debt ceiling and Europe’s policy paralysis. Even Germany, the euro zone’s main driver, saw its growth grind to a halt last quarter.



Source: BCA Research

- **Fear dominant**

Soaring gold and bond prices are evidence of the fear that’s plaguing the markets. The European Central Bank has not helped, tightening policy in the midst of such economic weakness while putting off renewed stimulus.

- **Valuations an inadequate yardstick**

While stocks are now very attractively valued as opposed to their long-term averages, it’s hard to determine what the equilibrium valuation matrices would be in a global economy of low/stagnant growth with high financial instability. Valuations say nothing about turning points in stock markets; a market can stay over- or undervalued for prolonged periods.

The Economy:

At present, several issues weigh on the market; these include:

- Political upheavals in the Middle East and the
- Chinese government’s unwavering efforts to moderate economic growth.

However, there is still an optimistic point to consider:

- US corporate profits have continued to beat forecasts.

Inside this Issue

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- 5 Potential Risks



Weak market sentiments driving equities down

S&P cuts US's AAA credit rating to AA+

G7 pledges support despite downgrade

Consumer confidence hits 2008 low

US Economic Data

Key economic data points	Expected	Actual
US GDP Annualised (Q2)	1.1%	1.0%
US Unemployment Rate (Jul)	9.2%	9.1%
US Nonfarm Payrolls (Jul)	91K	117K
US Consumer Price Index (YoY) (Jul)	3.3%	3.6%
US Consumer Price Index ex Food & Energy (YoY) (Jul)	1.7%	1.8%
US Reuters/Michigan Consumer Sentiment Index (Aug)	56.3	55.7
US Consumer Credit Change (Jun)	\$5.00B	\$15.53B
US Retail Sales (MoM) (Jul)	0.4%	0.5%
US Retail Sales ex Autos (MoM) (Jul)	0.2%	0.5%
US Durable Goods Orders (Jul)	2.1%	4.0%
US Durable Goods Orders ex Transportation (Jul)	-0.2%	0.7%
US New Home Sales (MoM) (Jul)	1.0%	-0.7%
US Existing Home Sales (MoM) (Jul)	4.92M	4.67M
US Producer Price Index (YoY) (Jul)	7.0%	7.2%
US Producer Price Index ex Food & Energy (YoY) (Jul)	2.3%	2.5%
US Philadelphia Fed Manufacturing Survey (Aug)	4.2	-30.7

Data source: FXStreet Economic Calendar

- US stocks fell throughout most of August, paring losses only on the fourth week with a sharp rebound as Federal Reserve Chairman Ben S. Bernanke determined that additional stimulus wasn't necessary. The S&P 500 is down 5.04% this past month, its fourth straight monthly loss, and the NASDAQ has declined 5.88%.
- Standard & Poor's on 6 August downgraded the US's AAA credit rating one level to AA+ while keeping the outlook at "negative", criticising the nation's political process and bashing lawmakers for failing to cut spending or raise revenue sufficiently to reduce record budget deficits. The rating may be cut further to AA by 2013 if spending reductions are lower than was agreed on, interest rates rise or "new fiscal pressures" push general government debt higher.
- Despite the downgrade, investors continued to soak up Treasuries with few alternatives amid fears that global growth is faltering and Europe's sovereign-debt crisis is spreading. British, French and Russian officials reiterated their confidence in the US after its downgrade, and Asian states are likely to retain their US Treasury holdings for now.
- US consumer confidence plunged in August to the lowest level since November 2008, indicating weakness in the largest chunk of the economy. Americans' confidence has been hit by growth slowing to a meagre 1%, joblessness exceeding 9%, falling home values and an equity slump. This waning optimism may indicate that consumer spending, which rose in 2Q2011 at the slowest pace in more than a year, will remain muted.

Our opinion on the US:

Neutral-positive in both the short and longer term.



UK consumer confidence slides for third consecutive month

Euro zone's manufacturing industry contracts

Euro zone's growth slows

Euro zone unemployment persistently high

Region's growth forecast may suffer cut

UK & EMU Economic Data

Key economic data points	Expected	Actual
UK GDP (YoY) (Q2)	0.8%	0.7%
UK ILO Unemployment Rate (3M) (Jun)	7.7%	7.9%
UK Nationwide Housing Prices (YoY) (Aug)	-0.4%	-0.4%
UK Gfk Consumer Confidence (Aug)	-31	-31
UK Retail Sales (YoY) (Jul)	0.1%	0.0%
UK Consumer Price Index (YoY) (Jul)	4.3%	4.4%
EMU GDP (YoY) (Q2)	1.8%	1.7%
EMU Unemployment Rate (Jul)	9.9%	10.0%
EMU Consumer Price Index (YoY) (Jul)	2.5%	2.5%
EMU Purchasing Manager Index Manufacturing (Aug)	49.7	49.0
EMU ZEW Survey – Economic Sentiment (Aug)	-6.2	-40.0
EMU Sentix Investor Confidence (Aug)	3.6	-13.5
EMU Consumer Confidence (Aug)	-12.0	-17.0
Germany GDP (YoY) (Q2)	2.9%	2.7%
Germany ZEW Survey – Economic Sentiment (Aug)	-26.0	-37.6
Germany IFO – Business Climate (Aug)	111.3	108.7

Data source: FXStreet Economic Calendar

- UK consumer confidence slid for a third straight month as stock market turmoil and signs of a weakening economic recovery hurt sentiment. Spending power is also being eroded at the fastest rate in nearly 40 years as inflation outpaces wage growth. While a shortage of homes for sale and record-low Bank of England interest rates have bolstered prices, the housing market continues to struggle as banks hold back lending and Britons grapple with their diminishing spending power.
- Europe's manufacturing industry contracted, with a manufacturing gauge falling to 49.0 (a reading below 50 indicates contraction), the weakest in two years, adding to signs that the euro zone's recovery is faltering.
- The euro zone's economic growth slowed to 0.2% in 2Q2011, its poorest performance since the 2009 recession. Germany's recovery neared a halt during this same period as consumers cut spending. The euro region's economy is slowing as governments toughen spending cuts to reduce their budget deficits, curbing consumers' willingness to spend. European economic confidence in August plunged the most in nearly three years.
- Unemployment figures in the euro zone held steady for a second month at 10%, with gains in Germany offset by persistently high joblessness in Spain, Ireland and Portugal. Companies across the region are reluctant to boost hiring amid austerity and a sputtering recovery. Economic and Monetary Affairs Commissioner Olli Rehn signalled that the EU may cut its 2011 growth forecast from 1.6% on concerns that financial turbulence could spread towards the broader economy.

Our opinion on the UK and EMU:

Negative in both the short and longer term.

Asia & Emerging Markets Economic Data



Brazil's central bank cuts benchmark rate despite accelerating inflation

Russia's economy weakens for second straight quarter

Pressure on Reserve Bank of India to raise rates amid strong growth

China prioritises price stability

Key economic data points	Previous	Current
Brazil GDP Growth (Mar)	5.04%	4.17%
Brazil Inflation Rate (Jul)	6.71%	7.1%
Brazil Jobless Rate (Jul)	6.20%	6.0%
Brazil Current Account (Jul)	-\$3.300B	-\$3.497B
Russia GDP Growth (Jun)	4.1%	3.4%
Russia Inflation Rate (Jul)	9.40%	9.00%
Russia Jobless Rate (Jul)	6.10%	6.50%
Russia Current Account (Mar)	\$12.906B	\$32.367B
India GDP Growth (Jun)	7.80%	7.70%
India Inflation Rate (Jun)	8.98%	8.92%
India Jobless Rate	NA	NA
India Current Account (Mar)	-\$9.977B	-\$5.404B
China GDP Growth (Jun)	9.70%	9.50%
China Inflation Rate (Jul)	6.40%	6.50%
China Jobless Rate (Jun)	4.10%	4.10%
China Current Account (Jun)	\$28.800B	\$69.600B

Data source: Bloomberg

- Brazilian inflation quickened for a 12th straight month and hit a 6-year high. Despite this, Brazil's central bank unexpectedly cut the benchmark rate a half point to 12%, after having raised rates at each of its past five meetings, as the risk of recession in Europe and the US weighed heavily on policymakers. Finance Minister Guido Mantega refuted critics, arguing that Brazil remains vigilant against inflation.
- Russia's economy slowed for a second quarter, missing economist estimates as industrial growth weakened and inflation eroded consumer buying power. All 22 economists surveyed by Bloomberg expect Russia's central bank to leave interest rates unchanged for a fourth month as inflation decelerates to a 10-month low and growth slows.
- India's economy in 2Q2011 grew faster than was forecast, keeping pressure on the central bank to extend its record interest-rate increases against the backdrop of a weakening global recovery. The Reserve Bank of India commented that the nation's consumption has "remained strong" due to higher salaries and that inflation may remain "stubborn" in the near term.
- China's top priority is stabilising prices and the government has no intentions of altering the direction of economic policies, Premier Wen Jiabao said, continuing to suggest that the economic slowdown is "reasonable" and within government expectations. Five interest-rate hikes in 11 months, property curbs and lending controls have together helped dampen demand in the world's second-largest economy.

Our opinion on Asia and the Emerging Markets:

Neutral-positive in the short term; positive in the longer term.

Potential Risks

- S&P's recent downgrade of the US's long-term credit rating may have a tremendous impact on bond markets, in particular.
- US economic data, from consumer spending to jobless claims, has been deteriorating, a strong indication that the recovery in the world's largest economy is not as robust as has been anticipated.
- High US unemployment and a soggy housing market continue to hinder recovery, with sentiments on a decline.
- Europe's sovereign-debt crisis still threatens to spread, while Germany's growth slows to a halt.
- The Chinese government's relentless curbs to keep growth sustainable may cause the economy to cool more than expected.
- Social tension in the Middle East still persists and oil prices may continue to rise, potentially unsettling markets further.