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## Market Overview

**Markets moved their focus from China's tightening, bank bashing and stimulus withdrawal to the Greek risk of default.** The dwindling Tory margin over Labour raised concerns of a hung parliament. Economies however continue to move back to growth. The inventory cycle and capital expenditure have room for further improvement. Profit growth is expected to remain strong for several quarters as a result, but longer term will become hard to come by as we enter a period of debt repayment across society. Sustainable economic improvement needs well capitalised banks and easier credit, which will take time. Housing markets seem to be bottoming and will help consumer confidence even as unemployment rises.

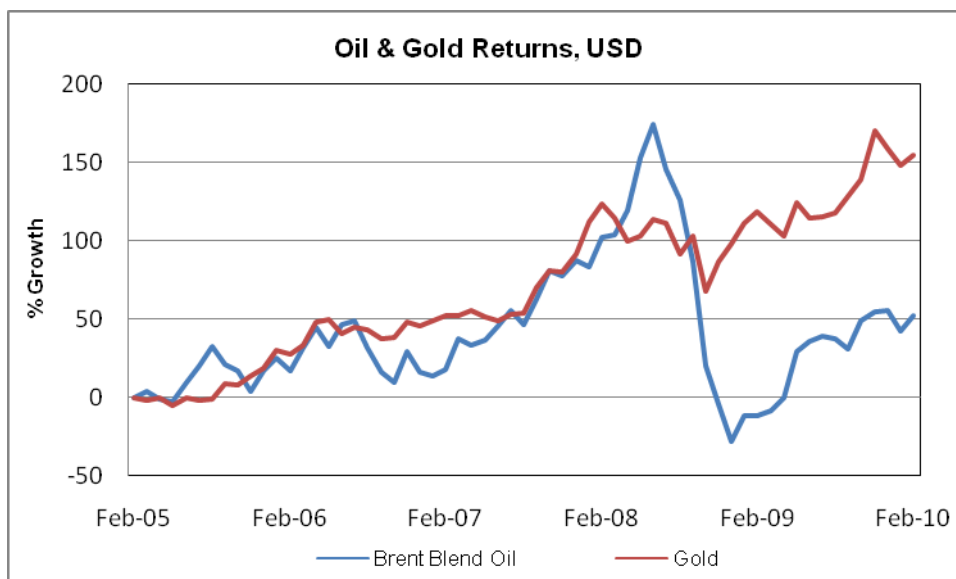
**Low deposit rates should push cash towards riskier assets for some time.** Equity valuations remain reasonable but a long, low growth era ahead adds to investor uncertainty. A high national debt burden should continue to encourage UK investors to diversify offshore for currency exposure and long term growth in younger economies.

**Quality bond yields remain reasonable although most of the capital gains have been made.** We continue to believe that inflation will remain contained longer term after an upward spike in Q1. Liquid hedge funds look reasonable for diversification purposes.

**For commodities to advance further will require a sustainable improvement in world growth.**

**UK commercial property yields have improved and prices stabilised** although debt re-negotiations in a poor rental market add to uncertainty. We believe yields compensate for the risk.

Chart of the Month: Oil and Gold Returns over the cycle.

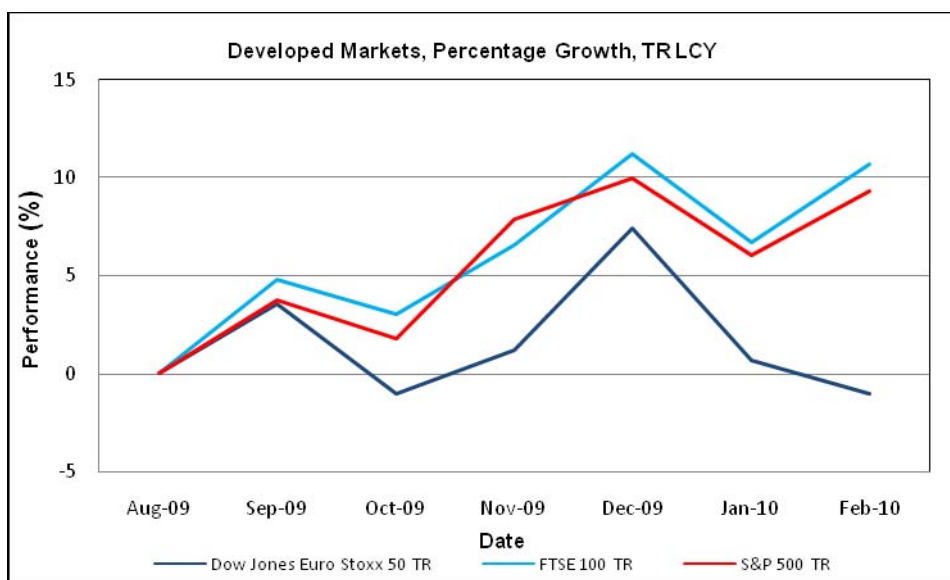


Source: Lipper

North America, UK and Europe

- America's new home sales fell by 11% in January to the lowest level since records began in 1963.
- Existing home sales in the US fell 7.2% in January – the lowest level in seven months.
- US service industry activity index rose to by 2.5 points to 53 in February from the previous month, the highest level in 28 months.
  
- UK GDP growth figure for 4Q09 was revised to 0.3% from an earlier estimate of 0.1%.
- Britain's unemployment rate was 7.8% in 4Q09.
- UK index of service industry activity rose to 58.4 in February, the highest level in 3 years.
  
- Euro area inflation was 0.9% annualised rate in February according to an early estimate.
- Europe's unemployment stood at 9.9% for the third consecutive month in January.
- Euro area industrial orders rose by 9.5% in 2009.
- Europe's manufacturing activity index was 54.1 in February – the highest reading in 2.5 years.

Chart: Major developed country equity markets.



Source: Lipper

Returns over the last 6 months (to 28<sup>th</sup> February 2010) denominated in local currency

S&P 500, PE= 16.5, yield= 2.4% (ex loss makers)

UK equity market, PE= 11.9, yield= 3.1%

DJ Euro Stoxx 50, Dax as proxy PE= 16.4, yield= 3.5% (ex loss makers)

(Country yields and PEs relate to a sample of stocks that cover at least 75% of each market's capitalisation and are denominated in local currency)

Source: Thomson Reuters (quoted in FT)

Japan, Asia Pacific and Emerging Markets

- Japan's GDP rose by 1.1% annualised rate in Q409.
- Japan's unemployment fell by 0.3% from the previous month to 4.9% in January.
- Australia's GDP in 4Q09 rose 2.7% compared to a year ago.
- India's GDP rose by 6% annualised rate in 4Q09.
- India's manufacturing output rose by 14.3% year on year in 4Q09.
- South African annual inflation rate fell by 0.1% to 6.2% in January from the previous month.
- South Korean industrial production remained flat in January from the previous month, having rocketed by 36.9% from a year ago.

Chart: Japanese main equity market and MSCI's Asian Index including all Asian countries ex Japan.



Source: Lipper

Returns over the last 6 months (to 28<sup>th</sup> February 2010) denominated in local currency

Japan's equity market, PE= 30.1, yield= 1.8% (ex loss makers)  
 (Country yields and PEs relate to a sample of stocks that cover at least 75% of each market's capitalisation and are denominated in local currency)

Source: Thomson Reuters (quoted in FT)

**Commodities**

- Oil price in USD terms rocketed by 15% in February.
- Gold price increased by almost 3% during the month.

	28 <sup>th</sup> February 2010	% change on 6m
<b>Nymex Crude Future USD</b>	81.73 (69.82)	17.06
<b>Dated Brent Spot USD</b>	78.02 (69.44)	12.36
<b>Gold USD (Mid)</b>	1110.78 (951.86)	16.7
<b>GSCI (Goldman Sachs Commodity Index)*</b>	517.48 (453.78)	14.04
<b>GS Non-Energy Index*</b>	346.36 (313.12)	10.62
<b>GSCI Agriculture*</b>	332.37 (310.93)	6.9

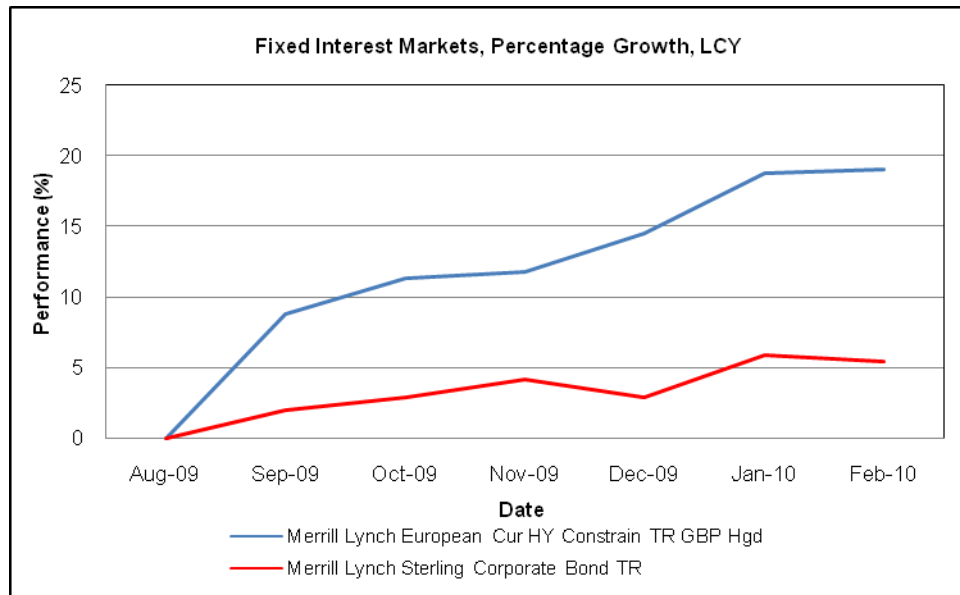
\*Spot index value. Price 6 months ago in brackets. GSCI heavily skewed to energy at roughly 65% to 70%.

Source: Bloomberg, Lipper.

**Bonds**

- Government bond prices fell slightly and yields rose during February.
- Corporate bond prices fell by 0.5% during the month.
- High yield bond prices rose marginally in February continuing their increase from the previous month.

Chart: Fixed Interest Markets



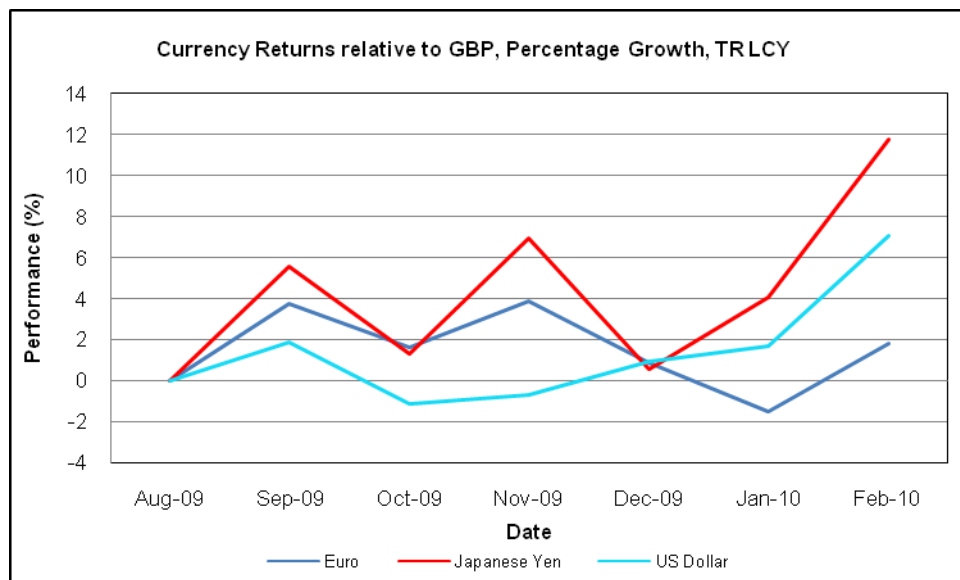
Source: Lipper

(to 28<sup>th</sup> February 2010)

**FX**

- Sterling fell against the three major currencies in February, dropping 5.2% against the USD, 1.6% against the Euro and 7.4% against the Yen.

Chart: Currency Returns



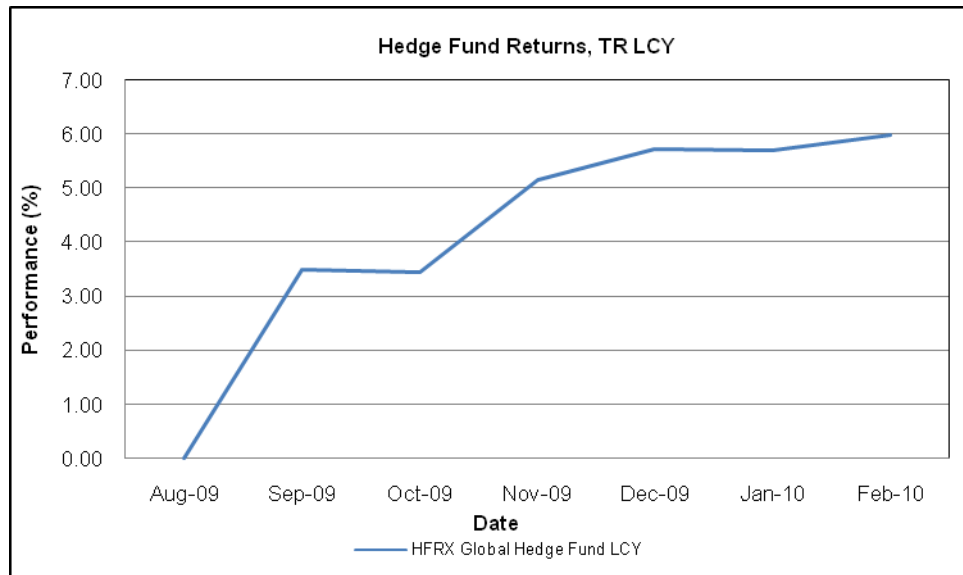
Source: Lipper

(to 28<sup>th</sup> February 2010)

**Hedge**

- HFRX Global Hedge Fund index rose marginally in February.
- Equity Market Neutral was the best performing strategy rising by 1.55% during the month.
- Convertible Arbitrage and Relative Value Arbitrage were the worst performing strategies but fell only marginally – by 0.5% and 0.22% respectively.

Chart: Hedge Fund Returns



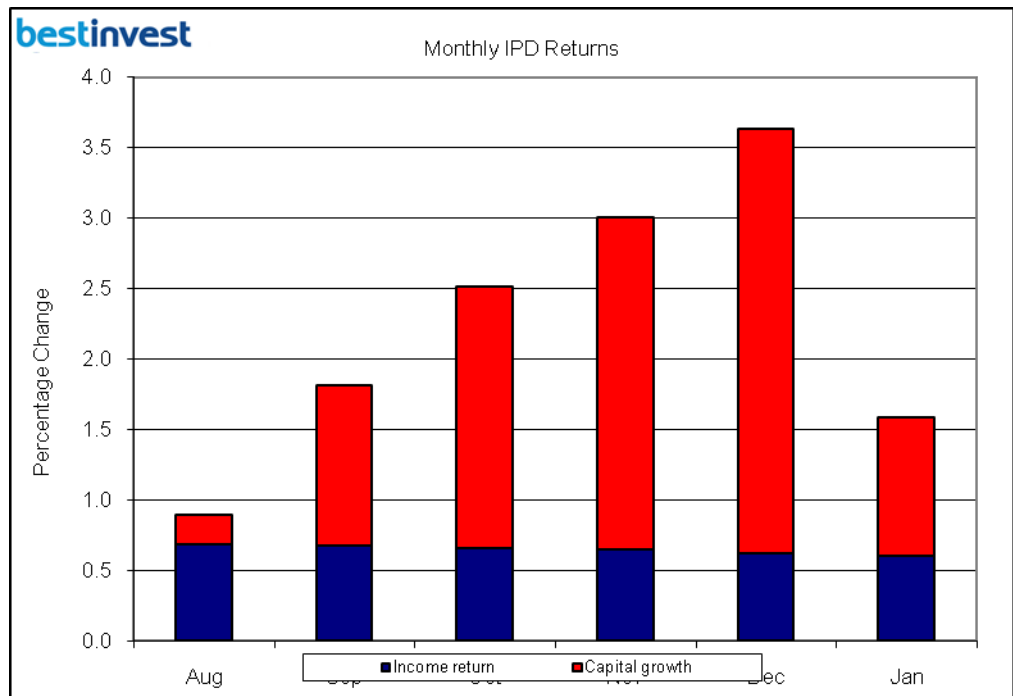
Source: Lipper

(to 28<sup>th</sup> February 2010)

Property

- UK commercial property initial yield continued to fall and was 6.95% in January.
- Property values continued to grow, but at a slower pace of 1.6% during the month.

Chart: Property Returns



Source: IPD

Investment Property Databank TR, last 6 months (to 31<sup>st</sup> January 2010)\*

\*Index data is released mid-month and therefore figures are only available with a one month lag.

**Market Returns**

	<b>1m</b>	<b>3m</b>	<b>6m</b>	<b>1y</b>	<b>3yr</b>	<b>5yr</b>
S&P 500 TR	8.52	9.21	17.04	43.82	8.05	28.86
FTSE All Share (X It) TR	3.38	3.96	10.09	47.26	-3.86	30.96
FTSE 100 TR	3.77	3.86	10.67	45.47	-2.03	29.95
Dow Jones Euro Stoxx 50 NR	3.34	-2.02	1.81	0.6	32.99	30.05
FTSE EuroTop 100 TR	3.45	0.63	6.42	45.43	4.73	42.09
Topix TR	6.58	11.24	4.23	24.08	-7.85	21.37
MSCI AC Asia Pacific ex Japan TR	6.65	6.03	18.24	77.27	40.46	109.66
MSCI EM (Emerging Markets) TR	5.65	6.23	20.2	79.89	45.3	129.63
FTSE Small Cap (X It) TR	-2.28	1.58	-0.19	69.98	-33.73	-7.67
HSBC Global Mining TR	10.03	3.21	28.34	97.22	57.72	182.39
ML Euro Cur HY Constrain TR GBP Hgd	0.24	6.51	19.06	76.7	24.48	49.24
ML Sterling Corporate Bond TR	-0.44	1.17	5.38	24.4	7.63	18.33
FTSE APCIMS/Balanced TR	3.06	3.55	8.07	31.44	3.13	31.47
FTSE APCIMS/Growth TR	3.79	4.52	9.81	37.51	1.32	32.22
FTSE APCIMS/Income TR	2.12	1.92	5.53	25.63	5.06	28.5
US Dollar	5.25	7.8	7.05	-6.37	28.73	26.49
Euro	1.62	-4.17	0.79	43.89	-2.13	34.26
Japanese Yen	7.37	4.5	11.75	3.09	71.63	48.44
LIBOR GBP 3 Month	0.05	0.15	0.3	1.02	12.86	24.27
Gold Index GBP	8.16	1.61	24.93	8.98	114.7	221.64

Source: Lipper

(to 28<sup>th</sup> February 2010 In GBP. Currency movements are vs. Sterling.)

The contents of this document are intended as general economic and market commentary and should not be read as specific investment advice. If you would like specific advice appropriate to your personal circumstances and financial objectives please call our advisers on 020 7189 9999.