



## MARKET ANALYSIS

February 2009

Economic data and corporate earnings have been under the microscope in January, as market analysts search for indicators which may point to the depth and extent of the global recession. So far the information disclosed makes for gloomy reading and on the whole markets have reversed the gains made in the last few weeks of 2008.

January is of course associated with Christmas retail sales figures and although the picture was mixed, the evidence does seem to suggest that sales were achieved at the margins, and this will ultimately hit the bottom line, especially for those retailers for whom Christmas trading forms such a major part of their yearly results.

The major event of January 2009 was the inauguration of President Barack Obama and he is already wasting no time in trying to implement a major economic stimulus package for the US economy. So far his \$819bn package has passed safely through the House of Representatives, however no support was forthcoming from Republican members and with the Democrat majority in the Senate being much slimmer the real battle may still need to be fought. For the time being all eyes focus upon the US as an increasing number of commentators suggest that America will be the first major economy to pull out of recession, if this is truly to be the case then the Obama package must be given the opportunity to be implemented and to work.

The month was also a bad one on the jobs front, with headcount reductions announced at a number of global corporations, including Corus, Dell, Microsoft, Nissan and Barclays

Although global equity markets have made a poor start to 2009, one brighter spot appears to be the rebound in the value of financial stocks which occurred towards the end of the month. This may be the first sign that markets are recognising that the various stimulus measures announced by world governments are slowly starting to have some effect, however confidence in the sector remains fragile. Our view is

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Key Data			
	30/1	31/12	+/(-)%
<b>FTSE 100</b>	4149.64	4434.17	(6.4)
<b>Dow Jones</b>	8000.86	8776.39	(8.8)
<b>CAC</b>	2973.92	3217.97	(7.6)
<b>DAX</b>	4338.35	4810.20	(9.8)
<b>Nikkei 225</b>	7994.05	8859.56	(9.8)
<b>Hang Seng</b>	13278.21	14387.48	(7.7)
<b>£ = \$</b>	1.447		
<b>Euro = \$</b>	1.28		
<b>£ = Euro</b>	1.1318		

Interest Rates	
<b>Bank of England</b>	1.5%
<b>European Central Bank</b>	2.0%
<b>US Treasury Reserve</b>	0.25%



currently that markets will continue to remain volatile, especially during the first quarter of 2009, but that a modest recovery is anticipated in the second half of the year.

**UK** – Although the FTSE100 Index closed the month 6.4% lower there was something of a partial rebound at the start of the last week of January. Overall economic data has been discouraging, with a recent survey undertaken by the CBI showing that 52% of UK retailers expect sales volumes to decline in February, the weakest forecast since the survey began in July 1983. The UK government continues to explore giving aid to UK businesses, with the car industry the latest to be considered for special measures. Despite this unemployment continues to rise and sterling remains weak, especially against the US dollar and Japanese Yen. Perhaps more disturbingly, the month ended with a series of wildcat strikes along the theme of “British jobs for British workers”, as rows break out about the use of foreign contract workers in a Lincolnshire oil depot.

**Europe** – A number of measures were announced by the Dutch and French governments designed to stimulate economic activity, this did have some positive effect on European financial stocks after several weeks of heavy selling. In addition the German Ifo survey showed that business confidence edged up from Decembers record low, which in turn provided a small amount of relief for the Eurozone’s economic powerhouse. Eurozone inflation eased to its lowest level since the launch of the Euro 10 years ago and with the Eurozone’s inflation rate now under the ECB’s 2% ceiling virtually all analysts expect a further cut in the ECB interest rate.

**US** – The US stock market experienced its worst January on record, thanks to a series of disappointing profits declared and a GDP report that showed the economic contraction picking up pace. Although the GDP report showed that the decline was not as bad as expected, further data pointed to the biggest contraction in US manufacturing output since 1982.

January saw the release of fourth quarter results for 208 of the companies contained within the S&P500 Index. On average profits had decreased by 38%, highlighting the damage that the more than one year old recession has done to company performance. Against this backdrop President Obama’s Treasury team, led by newly appointed secretary Timothy Geithner faces a tough task to revitalise the economy.

**Asia Pacific** – Japanese and other Asian stocks have had a difficult month, primarily due to the record decline in Japan’s industrial production, lowered profit forecasts and the realisation that that global recession could be deeper and longer than originally thought. The fall in production has not been helped by the strength of the Japanese Yen, leading to significant reductions in exported goods.

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