



MARKET ANALYSIS

March 2009

February has proved to be yet another tough month for investors, with markets facing a variety of unsettling issues. Fears about the health of the world's financial system intensified during the month after the US government increased its stake to 36% in Citigroup and the UK government increased its stake to 80% in Royal Bank of Scotland.

February also saw the presentation of President Obama's stimulus package and although a modified version was finally passed by both houses concerns abound as to how the stimulus capital will be spent and how the ever expanding deficit will be repaid.

Economic data continues to offer little encouragement for investors and as a result equity markets continue to fall, with little to offer support. Markets look set to test lows not seen since the invasion of Iraq and although logic still suggests that there are significant bargains to be found in the equity markets, there has been a flight to quality fixed interest stocks.

In this first week in March four major central banks meet to set interest rates (Bank of England, Bank of Canada, the Reserve Bank of Australia and the European Central Bank). With most central banks now running out of room to lower rates alternative monetary policy measures will be needed and any announcements made will be closely monitored.

The only sign of encouragement would appear to be that the current sell offs seem to suggest that a degree of capitulation has set in, which historically has been used as a buying signal. Volatility indexes remain high, suggesting that the bear market may have some further to run, although with trading volumes low there is an element of distortion to the picture.

UK – The FTSE100 Index closed the month 7.7%, primarily on the back of the ongoing fears about the health of the world's financial system. However things were not helped by weakening consumer sentiment and rising unemployment data. With the Bank of England base rate now cut to 1% the Monetary Policy Committee has little room to manoeuvre and alternatives to cutting interest rates must now be considered. The media has devoted considerable time to the House of Commons Select Committee's questioning of UK bank officials, with former RBS chief

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Key Data

	27/2	30/1	+/(-)%
FTSE 100	3830.09	4149.64	(7.7)
Dow Jones	7062.93	8000.86	(11.7)
CAC	2702.48	2973.92	(9.1)
DAX	3843.74	4338.35	(11.4)
Nikkei 225	7568.42	7994.05	(5.3)
Hang Seng	12811.57	13278.21	(3.5)
£ = \$	1.4315		
Euro = \$	1.267		
£ = Euro	1.2198		

Interest Rates

Bank of England	1.0%
European Central Bank	2.0%
US Treasury Reserve	0.25%



Sir Fred Goodwin cast in the post of chief villain. Prime Minister Gordon Brown has seized upon this to improve his poor popularity ratings, promising action to “clean up” the banks, and even to try to claw back an element of Sir Fred Goodwin’s pension. Although losses in the UK were not as pronounced as those in Europe and the US, the consensus is that the UK is likely to suffer the deepest recession of the worlds developed economies.

Europe – German stocks received a major battering as a string of adverse economic data confirmed the weakness of the German economy. France has followed a similar pattern, with the CAC down by over 9%, compared to the 11.4% fall in the value of the German DAX. The Euro has declined slightly against both the pound and the US dollar, as concerns are raised about the state of the Eurozone economies and the anticipation that the European Central Bank will be under pressure to significantly cut interest rates in the first week of March.

US – The US stock market followed on from its worst ever January by falling further in February, and the Dow Jones Industrial Average is now struggling to keep above the 7,000 barrier. Analysts attribute much of the weakness to the need for the US Treasury to intervene again in Citigroup, with this third attempt at propping up the bank being likened to nationalisation. Investors have also mulled over President Obama’s \$3.5 trillion budget proposal, which drives the federal deficit up to \$1.75 trillion. The budget request includes up to \$750 billion in additional aid to the financial industry in addition to the \$700 billion approved in October 2008 through the Troubled Assets Relief Program (TARP). In addition to this, the economic data published at the end of February pointed to further falls in housing sales and GDP, whilst consumer and business confidence continues to find record lows.

Asia Pacific – Although Japanese and other Asian indexes have followed the rest of the world lower, here the falls were not as great, as the US stimulus and bail out plans, along with Fed Chairman Bernanke’s bi annual testimony on the economy, provided some reassurance to investors. Japanese exports were down a record 45.7% on the year and Januarys adjusted industrial production showed a fall by 10%, giving a decline of 30% for the year. This rapid decline in the Japanese economy has led to a decline in the value of the yen, which in turn may provide some respite to a country which is heavily dependent upon exports.

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