

MARKET ANALYSIS

February 2010

Markets across the globe fell in January as investors came to realise the major underlying concern of the recent recovery; what happens when the various stimulus packages end? Central bankers across the globe were signalling the end of massive government intervention in the economy, with quantitative easing halted in the UK and China introducing new solvency rules for Banks.

Equity markets everywhere finished the month down, with markets in Europe particularly badly hit. The well documented budget deficit problems with the 'PIGS' (Portugal, Italy, Greece and Spain) within the Eurozone has damaged the image of European economic unity and investors are increasingly wary that one or more of these countries may be forced to leave the Euro in order to control their own interest rates.

In the UK, unemployment was down and the trade gap between imports and exports narrowed as consumers increasingly looked to pay off debts and increase savings. On the negative side, inflation rose at its fastest rate on record to 2.9%, driven by higher petrol costs and the effects of the reduction in the standard rate of VAT a year earlier dropping out of the twelve-month comparison, prompting further fears that the quantitative easing programme has been allowed to continue too long. UK corporate profitability fell to its lowest level in 8 years.

Markets in the US were still coming to terms with what some have called Obama's 'assault' on the Banks, with the potential uncertainty regarding the exact nature of the plans and a shock rise in unemployment combining to have a negative impact on the performance of the Dow Jones and S&P 500. Google was one of the worst hit household names following its threat to pull out of China following a 'sophisticated' cyber attack on e-mail accounts of well known human rights activists.

Key Data			
	31-Jan	31-Dec	+/(-%)
FTSE 100	5188.52	5412.33	- 4.3%
Dow Jones	10067.33	10428.05	- 3.6%
EuroStoxx50	2776.83	2964.96	- 6.4%
Nikkei 225	10198.04	10546.44	- 3.3%
Hang Seng	20121.99	21872.50	- 8.0%
MSCI EM	933.59	989.47	- 5.7%
Crude Oil	\$72.64	\$79.62	- 8.8%
£ = \$	1.5992		
€ = \$	1.3866		
£ = €	1.1533		

Interest Rates	
Bank of England	0.5%
European Central Bank	1.0%
US Treasury Reserve	0.25%

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Economists continue to argue about the sustainability of continued growth in China. With Anthony Bolton, the well respected former manager of the Fidelity Special Situations Fund, due to open a new fund invested in China the bulls and bears have taken their positions. The bulls highlight a ‘once in a lifetime’ investment opportunity, whilst the bears are keen to draw comparisons to other investment bubbles which have gone wrong in recent times, most notably the technology bubble which burst in the early 2000’s.

In currency markets, the Euro weakened as default fears for individual member states were heightened, meanwhile the Dollar strengthened against the Pound. The strengthening Dollar contributed to the drop in Oil price, down over 8% over the month, which was also affected by lower than expected demand from China and the Far East.

Central bankers will face a difficult February as they look to predict the optimum time for the removal of their stimulus measures. Too soon and they risk erasing recent gains; leave it too long however and there is a danger that several economies will overheat in the artificial conditions created by government stimulus measures.

UK

The Monetary Policy Round Table, made up of economists from the Bank of England and the Centre for Economic Policy Research, has warned that Britain faces a ‘lost decade’ where consumers are averse to borrowing. This has prompted fears that the economy will stagnate over the longer term.

EUROPE

Germany’s economy, the largest in Europe, contracted by 5% in 2009 as exports and industrial manufacturing collapsed in the face of the global recession. Elsewhere, Eurozone inflation hit a 10 month high of 0.9% in December, with many predicting further sudden increases in the months to come.

US

The scale of the job losses reported in January took many commentators by surprise, who had almost universally predicted a reduction in employment, with 85,000 more people losing their jobs. This shock spread to the US equity markets and added to the growing uncertainty over the short term future of the economic recovery.

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ASIA/PACIFIC

Further encouraging news from China, where year on year growth in the economy saw an increase in December of more than 10.7%, was not enough to stop heavy losses on the Chinese and Hong Kong equity markets. Meanwhile in Japan, the new Finance Minister, Mr. Naoto Kan, confirmed that he would like to see a weaker Yen, prompting concerns that the new Liberal Government would be prepared to intervene in the currency markets.

EMERGING MARKETS

Industrial production data from India was positive, up 11.7% in November 2009 compared with the year before. Many analysts are predicting that the Emerging Markets countries will be the first to raise interest rates in the first half of 2010 in an attempt to stop their economies overheating whilst markets in the West are slowly recovering.

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