



MARKET ANALYSIS

August 2009

Equities across the world rebounded strongly in July as markets reacted to generally improving economic news and a string of corporate results posting earnings in excess of analyst expectations. A strong second quarter GDP figure from China coupled with an improving figure from the US added to positive sentiment. Property markets in both the UK and US showed further signs of bottoming out but amongst all the good news was the cautionary note of rising unemployment across a wide range of countries casting doubt over the strength of future consumer expenditure.

The FTSE 100 struggled early on in the month amid fears over the length of the recession and apprehension regarding second quarter results weighing heavily on the market. After reaching an intra-month low on 10 July the market rallied strongly until month-end with support from upbeat economic data, resurgent mining stocks and better than expected earnings results.

Oil fell almost \$10/bbl in the first half of July but recovered well to close just under the \$70/bbl mark where it began the month.

Sterling continued to strengthen against the Dollar and was flat to the Euro.

Interest rates remained unchanged in the major economies, with the US & UK remaining committed to quantitative easing. The IMF believes eurozone member states and the European Central Bank (ECB) will have to take further action to pull the euro area into economic recovery. The IMF also stated that it expects the decline in eurozone activity to moderate through the remainder of 2009 giving way to a modest recovery in 2010, although it attached a note of uncertainty to this forecast.

Once again the outlook for the coming month is mixed as commentators continue to disagree over the strength of the global economy and the manipulating effect of quantitative easing on equity markets. We believe August is a time to be watchful as we may well see a correction in global equities but investors should remain calm and have confidence in the long term view that markets are heading in the right direction as the world gradually pulls itself out of recession.

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Key Data

	31-Jul	30-Jun	+/(-%)
FTSE 100	4608.36	4249.21	8.5%
Dow Jones	9171.61	8447.00	8.6%
EuroStoxx50	2638.13	2401.67	9.8%
Nikkei 225	10356.83	9958.44	4.0%
Hang Seng	20573.33	18378.73	11.9%
MSCI EM	844.02	761.30	10.9%
Crude Oil	\$69.45	\$69.89	-0.6%
£ = \$	1.6700		
€ = \$	1.4300		
£ = €	1.1700		

Interest Rates

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



UK The FTSE 100 returned to positive territory for 2009 following a strong second half of July. In notable news on the economic front, June inflation measured at 1.8% (year on year) falling below the BoE's 2% target for the first time since 2007. Preliminary Q2 GDP figures revealed the UK economy has contracted 0.8%, representing the fifth consecutive quarterly decline in GDP, dashing hopes of a quick return to positive economic growth. On a brighter note the latest data from the Land Registry revealed that house prices grew 0.1% versus the previous month.

Europe Economic confidence increased more than expected as companies across the market reported earnings exceeding expectation. Buoyed by this renewed belief, investor sentiment and equity markets surged with benchmark indices in France and Germany posting gains of 9.1% and 10.9% respectively. It was not all good news in the region as continued rising unemployment burst through 9%, the Spaniards in particular are suffering severe problems with levels around 18%. Such high levels of unemployment inevitably lead to consumers tightening their belts and hence retail sales fell for the 14th consecutive month.

US Equity markets across the Atlantic followed a similar pattern to the UK. After an unsteady start to the month, news of improving economic data and better than anticipated corporate results impelled the S&P 500 Index to close up 7.4% and the Dow to climb 8.6% and in the process record it's best monthly performance since 2002. Despite poor unemployment figures (June job losses 33% higher than expected at almost half a million) news flow was generally encouraging and reflected Bernanke's and the IMF's shared view that the US economy is on course for a gradual recovery.

Asia Pacific Growing expectations of sustainable economic recovery were again the drivers of Asian equity markets. This positive direction was also underpinned by encouraging corporate results, with earnings at or above expectations. Positive GDP data from China raised hopes that Q1 2009 marks the trough for the capitalist state. Korea, Singapore and Hong Kong are all enjoying improved outlooks for the remainder of the year. Consumer confidence hit an 18 month high in Japan as exports continued their gradual recovery and industrial production improved for the fourth consecutive month. Political developments contributed to equity market fluctuations as the ruling Liberal Democrat Party suffered heavy losses in local Tokyo elections resulting in Prime Minister Taro Aso calling a general election he is widely expected to lose.

Emerging Markets Summary After pausing for breath in June, emerging markets registered gains across all regions. The benchmark MSCI Emerging Markets Index surged to close the month up 10.9% (48.8% for 2009). Traditional drivers of emerging market equities such as crude oil and metals showed little change while EM bond spreads over US treasuries narrowed by 40bps (0.004%). Asia was the month's best performing region, led by Korea and Indonesia.

Emerging Europe Poland and Turkey led the way in showing gains as a result of growing confidence that the worst of the recession is now behind us. Russian manufacturing contracted at its slowest rate this year and wage arrears fell by 18%. Hungary raised €1bn through a debt auction that was oversubscribed in a clear sign that foreign investors are returning to the region.

Latin America Equities were underpinned by a belief that the region, led by Brazil, will move out of recession this year and low interest rates will stimulate consumer spending. Further good news for the region came in the form of an upbeat IMF report stating Brazil's financial system

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had proved 'resilient' during the global crisis of 2008 and the ratings agency Moody's moving Brazil to review for a possible upgrade.

Credit Markets, driven by positive earnings surprises and ongoing improvements in leading indicators, rallied further in July. UK Gilts underperformed on the back of news the MPC were unanimous, contrary to market expectation, in voting to hold the Quantitative Easing asset purchase plan at £125bn.

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