



## MARKET ANALYSIS

May 2009

For the second month in a row markets across the globe have risen strongly and although much debate focuses on whether we are in a bear market rally or a real recovery the evidence is starting to mount in favour of the latter. A good portion of the strong performance can be attributed to better than anticipated earnings in the first quarter reporting season, along with accumulating evidence that the global recession may now finally be levelling off.

The major new stories of the month have both occurred in the last week of April, and both emanated from the Americas. The outbreak of swine flu, which has originated in Mexico but has spread to most corners of the world, reminds us of how much smaller the world is, and how difficult it would actually be to contain a worldwide pandemic without major restrictions on how we lead our lives. Interestingly despite the obvious potential to damage trade and business the impact upon markets has been relatively minor, although winter may bring a greater test of both authorities ability to contain the epidemic and business' ability to cope with restrictions and staff absences.

The other main news story concerned Chrysler's plunge into bankruptcy, although again this has probably been expected for some time and had already been factored in by the markets and therefore the impact was negligible.

Despite the cheerier economic news the IMF's interim forecast painted a dour picture, with the global economy still expected to contract sharply for the rest of this year and with only sluggish recovery expected in 2010 (latest worldwide forecast is only 1.9%). This assessment provides a sobering counterpart to the reports of "green shoots" being found in an increasing number of areas, and the IMF has called upon governments to sustain or even increase fiscal stimulus.

Interest rates have remained unchanged in the leading markets, this is not surprising given that policymakers now have little room to cut further plus the acceptance that quantitative easing in some form or other is now the main weapon. This has benefited currencies where key interest rates are still relatively high, such as the Australian and New Zealand dollars, at the expense of the yen, where the key interest rate is only 0.1%.

### Key Data

	30/4	31/3	+/(-)%
<b>FTSE 100</b>	4243.71	3926.14	8.1
<b>Dow Jones</b>	8167.41	7608.92	7.3
<b>CAC</b>	3142.42	2807.34	11.9
<b>DAX</b>	4732.90	4084.76	15.9
<b>Nikkei 225</b>	8848.84	8109.53	9.1
<b>Hang Seng</b>	15369.11	13576.02	13.2
<b>£ = \$</b>	1.4862		
<b>Euro = \$</b>	1.3261		
<b>£ = Euro</b>	1.1207		

### Interest Rates

<b>Bank of England</b>	0.5%
<b>European Central Bank</b>	1.5%
<b>US Treasury Reserve</b>	0.25%

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**UK** – The FTSE100 Index closed the month over 8% higher, despite increasing reports suggesting that Prime Minister Gordon Brown is losing the support of his own party and a larger than expected contraction in GDP for the first quarter of the year. Retail sales figures for March showed a 0.3% increase, primarily in the areas of clothing and food and with an increase in consumer confidence there are more than enough hints to suggest that brighter news is not too far away.

**Europe** – European stocks have had a strong month, which helps to reverse the series of sharp declines since the turn of the year. The German DAX rose by almost 16% whereas France's CAC 40 rose by almost 12%, with the major events of note being a steady improvement in consumer sentiment, stronger than expected French consumer spending and a profitable first quarter being announced by Credit Suisse. The European Central Bank is expected to make one further cut in interest rates in May, after deciding to leave rates on hold in April, it is felt that one more cut is essential in an attempt to stimulate the Eurozones weaker economies, such as Ireland (which saw an emergency budget in April) and Portugal..

**US** – US markets had a second successive month of positive returns, with the Dow Jones Industrial Average advancing by over 7%. This was very much on the back of a set of generally brighter economic data, along with an increasing consensus that the US economy has finally bottomed out. This enabled markets to be able to shrug off the twin threats of swine flu and Chrysler although many nervous eyes will be cast on the US Treasury's announcement of the recent stress tests carried out on banks, which is now expected on 7 May. Consumer confidence also rebounded in April, with the index posting its biggest one month jump for four years, with consumer expectations also pointing to the expectation of recovery in the not too distant future. Most first quarter company reports have also tended to surprise on the upside.

**Asia Pacific** – Asian markets have been able to build on the improvement shown in March, and it should be noted that all of the Asian and Pacific emerging market indexes have sizeable gains in 2009, and so helping to restore a sizeable proportion of the losses incurred in 2008. Generally across Asia, investors have been buoyed by indications that the global recession may be bottoming out along with firm hopes for a revival in corporate sector earnings growth. In Japan industrial production was up for the first time since September 2008, when it barely inched upward, so in fact this is the first major upward movement for some time. According to the Survey of Production Forecasts in Manufacturing, production is expected to increase by 4.3% in April and 6.1% in May, if this turns out to be the case, then perhaps we are seeing a clear signal that the worst is indeed behind us.

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