



## MARKET ANALYSIS

November 2009

The 6 month equity bull run paused for breath in Europe and the US in October, with the FTSE 100 retreating over 1.5% and shares in Europe down over 4%. Results from Asia were mixed with equities in Hong Kong (measured by the Hang Seng Index) up over 3%, while Japanese markets struggled ending the month with a fall of just over 1%. The key question for investors is whether this is just a temporary blip in the grand recovery or a sign that we are heading for the 'double dip' or 'W shaped' recovery predicted by many?

Equity markets however were perhaps not the major story in the month that the US emerged from recession, posting better than expected annualised growth of 3.5% over the last 3 months. Caught up in the euphoria, many economists seem to have forgotten the fact that the UK economy still remains in recession, that world leaders seem to have run out of ideas now that the 'cash for clunkers' scheme and quantitative easing are coming towards an end, and even that global unemployment shows no sign of relenting. Those comments aside, the US moving out of recession is an important psychological step on the road to global recovery.

The UK disappointed by posting a further decline in GDP for the 3<sup>rd</sup> quarter of 2009, meaning this recession is now the longest on record, with a total decline of over 6% in the last six months alone. With politicians starting to manoeuvre for position ahead of the General Election due next year, the shape of the recovery over the medium-long term appears to depend on the hue of the victor. John Patullo, head of Fixed Interest at Henderson Global Investors, has even predicted a crisis in Sterling should the result be a hung parliament.

In Asia, the export trade continued to decline in the face of reduced consumer spending in the West, though the US emerging from recession will improve the outlook in the coming months. The rate of decline began to slow however, with Taiwanese exports down 12.7% compared with the same period in 2008. The recovery in China marched on, with the target growth of 8% in 2009 now well within sight. The massive Chinese Government stimulus seems to have driven this recovery (and possibly the global recovery), though the same issues about what to do when the stimulus ends apply to China as to the US and Europe.

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### Key Data

	31-Oct	30-Sep	+/(-%)
<b>FTSE 100</b>	5044.55	5133.90	-1.8%
<b>Dow Jones</b>	9712.73	9712.28	0.0%
<b>EuroStoxx50</b>	2743.50	2872.63	-4.5%
<b>Nikkei 225</b>	10034.74	10133.23	-1.0%
<b>Hang Seng</b>	21752.87	20955.25	3.8%
<b>MSCI EM</b>	914.26	914.05	0.0%
<b>Crude Oil</b>	\$77.00	\$70.61	9%
<b>£ = \$</b>	1.6447		
<b>€ = \$</b>	1.4728		
<b>£ = €</b>	1.1167		

### Interest Rates

<b>Bank of England</b>	0.5%
<b>European Central Bank</b>	1.0%
<b>US Treasury Reserve</b>	0.25%



The Dollar, partly fuelled by rising oil prices recovered from a poor September, ending the month up against Sterling at \$1.6447.

The outlook for November depends largely on investor confidence following the first negative month in equity markets since March. The GDP results from the US coupled with rising commodity prices should be enough to avert a significant fall in global equity markets, though on a domestic level the FTSE100 may continue to struggle, as the UK economy remains in recession.

## **UK**

Included with the disappointing GDP figures for the last quarter, was the detail that industrial sector output declined by 0.7% in the 3<sup>rd</sup> quarter, a larger fall than in the 2<sup>nd</sup> quarter. Meanwhile output in the service sector, which it was hoped would drive the recovery, declined by just 0.2%, the smallest decline since the recession began. Perhaps surprised by the negative growth in the 3<sup>rd</sup> quarter, the Bank of England is likely to continue with the quantitative easing programme although at what level remains to be seen.

## **EUROPE**

As the European Union heads closer to political unity, the economic data continued to show a dependence not on Germany or France, indeed none of the EU member states, but those distant cousins across the Atlantic. Macro-economic data in the US continues to have a profound effect on European equity markets, with news that US consumer spending was down in October resulting in a simultaneous drop in European equity markets. It reminds one of the old saying.....America sneezes and Europe catches a cold.

## **US**

Already the more bearish commentators have poured scorn on the news that the US is out of recession, with accusations that the recovery has been nursed by the stimulus package and that as soon as the Federal Reserve Bank is forced to increase interest rates then consumer demand will falter. Despite the headline news of the increase in GDP, macro-economic data continues to disappoint with unemployment up throughout the month and investor sentiment improving only slightly.

## **ASIA/PACIFIC**

The Royal Bank of Australia became the first major economy to tighten monetary policy, increasing the base rate by 25 basis points to 3.25% in October, with a further increase to 3.5% likely to be announced in early November. Elsewhere, detailed figures released by the National Bureau of Statistics in China revealed that spending on infrastructure is up over 50% when compared to the same period last year, whilst retail sales were up over 15%.

## **EMERGING MARKETS**

The Emerging Markets index finished the month flat, with any gains made through increasing commodity prices limited by disappointing macro-economic data from the developed Western economies. Of the BRIC countries, Russian and Chinese equities finished the month up over 3% and 8% respectively whilst India was down 7% on the back of fresh concerns over Government infrastructure spending. Brazil recorded negligible growth over the month, but the Bovespa index is up over 200% since the lows witnessed in October 2008.

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