

MARKET ANALYSIS

April 2010

If markets had shown signs of returning to some semblance of normality in recent months, April was the month that finally shattered the illusion that the global economy was fit and healthy again.

In Europe, Greece teetered on the brink of default and was only saved by a controversial bailout from the Eurozone and the International Monetary Fund (IMF), meanwhile fears of contagion spread as Spain's creditworthiness was downgraded. Pictures of riots in Athens brought home the very real impact of the global economic crisis.

In the UK, opinion polls pointed to a hung parliament and the possibility that political fighting would hamper any serious efforts to alleviate the massive national debt. Unemployment figures were also disappointing, at their highest level for 16 years, whilst the initial first quarter growth figures for 2010 suggested that the economy grew by a meagre 0.2%; lower than the 0.4% growth in the final quarter of 2009.

In the USA, some of the more optimistic commentators were disappointed to hear that the Federal Reserve showed no sign of increasing interest rates in the near future. Meanwhile political scandal and disillusionment with the new Democratic government in Japan contributed to the economic malaise in Asia.

Despite all the negative news, equity markets suffered only relatively small falls and the Dow Jones actually finished the month up over 1%. There are also signs that the housing market in the US, which is blamed by many for starting the global economic crisis, is recovering with new home sales up nearly 25% in April. China meanwhile announced growth in the first quarter of 2010 of 11.9%, up 5.7% up from the same period in 2009.

Key Data			
	30 April	31 March	+/(-)%
FTSE 100	5553.29	5679.64	(2.2)
Dow Jones	11008.61	10856.63	1.4
EuroStoxx50	2816.86	2931.16	(3.9)
Nikkei 225	11057.40	11089.94	(0.3)
Hang Seng	21108.59	21239.35	(0.6)
MSCI EM	1020.03	1010.33	1.0
Crude Oil	\$86.22	\$83.38	3.4
£ = \$	1.5274		
Euro = \$	1.3307		
£ = Euro	1.1478		
Interest Rates			
Bank of England			0.5%
European Central Bank			1%
US Treasury Reserve			0.25%

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Currency markets responded broadly in line with equity markets; the Euro continued to weaken against the US Dollar, whilst Sterling appreciated slightly against the Dollar as traders await the outcome of the general election. The price of Oil rose again and now stands at over \$86 per barrel, with further increases expected in the coming months.

In Britain, May will be dominated by the political wrangling following the general election (which has returned a hung parliament for the first time in over 35 years). Markets will be looking to see if a stable government can be formed to tackle the growing deficit problem. If the markets perceive a weak government then the result could be increased volatility on the FTSE and a sterling crisis. Elsewhere, eyes will also be on potential fallout in the Eurozone following the Greek bailout.

UK

Unemployment in the UK unexpectedly rose in the three months up to February, to reach a 16 year high of 8% of the workforce. The number of those classed as 'economically inactive', including students and those looking after a sick relative, now totals over 8.1 million, the highest number since records began in 1971. There was also confirmation in April that Government borrowing levels for the last financial year were at their highest level since World War II.

EUROPE

In what was undoubtedly a rough month for the Eurozone, some positives could be taken from the announcement that the Eurozone is currently running a £2.3billion trade surplus with the rest of the world. Inflation continued to rise, with figures for March revealing inflation in all the EU member states, including those not currently in the Euro, was up at 1.9%. The highest inflation rates were seen in Eastern European countries like Hungary and Romania, whilst some countries, including Ireland, were still struggling with deflation.

US

In a testimony before the Joint Economic Committee in Congress Ben Bernanke, Chairman of the Federal Reserve, predicted a 'moderate economic recovery' over the coming quarters. Behind the increased house sale figures for the month, the average house price also rose up over 4% year on year. The monthly goods and service deficit for April increased to 7.4% as imports continued to increase faster than exports, pointing to an improving domestic market in the US.

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ASIA/PACIFIC

Driving the spectacular GDP growth figures for China was a substantial increase in exports, up nearly 29% in the first quarter of 2010. However, imports were up a staggering 65% in the same quarter, supporting claims that the domestic economy in China is assuming greater importance. Perhaps the only downside was that these figures led to the first trade deficit in China for 6 years.

EMERGING MARKETS

The IMF felt able to improve its prediction for World Economic Growth in 2010, largely as a result of anticipated improved growth in developing economies. Overall, the IMF predicts growth in developing economies in 2010 will be 6.3% in 2010, with the strongest growth predicted from China (10%) and India (8.8%). The MSCI Emerging Market Index held up well throughout April, posting a small gain of just under 1% for the month.

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