market analysis: April 2011

5 May 2011

Following a volatile month in March caused by events in Japan and the Middle East, April was a relatively calm month for most equity markets as economic factors again played a crucial role in determining market performance. Over the month, stocks in the US and Europe were the best performers up 4% and 3.5% respectively.

The major economic news in April started with the decision by the European Central Bank to raise its headline refinancing interest rate by 0.25% to 1.25%. The timing of the rise has been questioned, with several Eurozone members such as Ireland, Greece, Portugal and Spain already struggling to raise funds, with the rate rise likely to add to these problems. The rationale behind the rise was concerns that inflation has been consistently above the 2% target over the last year. The effects were immediate, with the Euro gaining strongly against the US Dollar to reach its highest level since November 2009.

The Euro's rise against the US Dollar was also helped by news that Standard & Poors had changed its long-term credit rating outlook for the US from stable to negative. The country retains its AAA rating but fears remain that political deadlock will hamper any effective budget deficit reduction plan. The announcement temporarily set back equities in the US, UK and Europe, though any lost ground was promptly recovered in the next few days. The US Dollar weakened following the news, with Sterling up over 4% against the Dollar.

Domestically, initial estimates for GDP growth in the first quarter of 2011 suggested that the UK had avoided a double dip recession, with growth of 0.5%. Reaction to the figure was mixed, with detractors pointing out that the UK economy had not grown at all in the last 6 months, following the 0.5% contraction at the end of 2010.

The continuing rise in the price of oil wiped out the reduction in petrol duty announced by the Chancellor in the UK budget in March. The rising price of oil has been exacerbated by the weakness in the US Dollar and has been steadily rising since the lows of early 2009 when the price of a barrel was below $50.

Key Data	29 Apr 2011	31 Mar 2011	+/(-)%
FTSE 100	6,069.90	5,908.76	2.7
Dow Jones	12,810.54	12,319.73	4.0
EuroStoxx50	3,011.25	2,910.91	3.4
Nikkei 225	9,849.74	9,755.10	1.0
Hang Seng	23,720.81	23,527.52	0.8
MSCI EM	1,204.03	1,170.87	2.8
Crude Oil	$113.35	$106.19	6.7
£ = $	1.671	1.604	4.2
Euro = $	1.484	1.416	4.8
£ = Euro	1.126	1.132	(0.5)

Interest Rates	
Bank of England Base Rate	0.5%
ECB Refinancing Rate	1.25%
US Fed Funds Target Rate	0.00% -0.25%

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UK

Taking a closer look at the initial GDP growth figures reveals that the manufacturing and services sectors were the best performers in the first quarter, though construction continued to fall, down a further 4.7%. Although revisions to the initial estimates are expected, analysts believe the relatively low level of growth is likely to lessen the chance of an interest rate rise in the coming months. In other news, retail sales were unexpectedly strong in March, with the volume of sales up 1.3% compared to March 2010.

EUROPE

The announcement of the rise in the base rate of interest in the Eurozone served to confirm the inherent problem of attempting to manage several different economies under one monetary policy. The overall situation in the Eurozone would appear to be improving; total unemployment dropped to under 10% in April, whilst labour productivity has been steadily rising in the last few months. However, much of this positive news is provided by Germany and France, with the smaller economies on the whole struggling.

US

The rise in the Dow Jones Industrial index in April was the fifth straight month of gains with the index up nearly 10% since the start of 2011. This rise has been fuelled by a recovery in corporate earnings, which have been stronger than anticipated in the first quarter of 2011 and is despite concerns over the rising price of oil and stubbornly high unemployment figures.

ASIA/PACIFIC

In Japan the economy is still dealing with the effects of the earthquake and tsunami that struck in March. Unsurprisingly, industrial production suffered a record 15% drop in April as major manufacturers like Toyota were forced to halt production. However, there has been some good news as corporate earnings figure being better than expected in the first quarter of 2011, with the Nikkei 225 managing to finish the month up 1%.

EMERGING MARKETS

Recent trends in many Emerging Markets have seen a shift in economic bias towards domestic consumers. Some impressive figures have emerged: up to 75 million more people a year from Emerging Market countries become middle class in economic terms, whilst it is estimated that 180,000 people each day move from the countryside to cities such as Jakarta, Singapore and Bangkok. However, it is important not to overstate this change, with most Emerging Markets still dependant on basic manufacturing and raw materials.