

There were strong gains across all the equity markets reported here, finally breaking the string of losses since recent highs in May. Equities in the UK, US and Europe were up between 8% and 11%; double digit gains were also seen on the MSCI Emerging Markets Index and the Hang Seng. However, perhaps these gains should be seen as symptomatic of the volatility which has gripped markets in the last couple of years rather than the beginning of a sustained period of growth.

The major economic headline of the month continued to be the ongoing problems in the Eurozone. The much anticipated summit of Eurozone leaders towards the end of October produced a framework of measures aimed at tackling the debit crisis and specifically the problem of Greece. European banks will be forced to increase the amount of capital held in reserve, whilst the European Financial Stability Fund will be increased in size again to around €1 trillion. The main news however concerned Greece and the announcement that investors would face a 'haircut' of 50% of the value of Greek bonds. The news reassured investors that action was being taken. However any positive effect brought about by the summit was soon destroyed by the announcement a few days later that the Greek Prime Minister, George Papandreou intended to hold a referendum on the latest set of austerity measures which must be implemented in order for Greece to receive the next instalment of bailout funds. The referendum has subsequently been put on hold following dissension amongst politicians in Greece, perhaps under pressure from the Eurozone leaders who are leading the efforts to rescue Greece.

In other news, stronger than expected third quarter GDP growth in the UK and the US helped to improve investor sentiment. In the UK, GDP growth between July and September was estimated at 0.5%, higher than the 0.1% reported in the second quarter which was affected by one-off events such as the Royal Wedding. In the US, GDP growth in the third quarter was nearly double that in the second, up 2.5% on initial estimates.

The price of oil saw its largest monthly rise since 2009 largely due to increased market demand occurring at the same time as a traditional seasonal increase in demand before winter in the northern hemisphere. In currency markets, the Euro strengthened against the US Dollar and Sterling, whilst the Japanese government again intervened to weaken the Yen and aid exporters.

Key Data			
	30 Sept 2011	31 Oct 2011	+/(-)%
FTSE 100	5,128.48	5,544.22	8.1
S&P 500	1,131.42	1,253.30	10.8
EuroStoxx50	2,179.66	2,385.22	9.4
Nikkei 225	8,700.29	8,988.39	3.3
Hang Seng	17,592.41	19,864.87	12.9
MSCI EM	880.43	995.00	13.0
Crude Oil (Brent)	\$105.39	\$109.76	4.1
Gold	\$1,625	\$1,724	6.1
£ = \$	1.562	1.612	3.2
Euro = \$	1.342	1.415	5.4
£ = Euro	1.164	1.139	(2.2)
FTSE Index Linked Gilts	2,986.62	2,986.66	0.0
FTSE Gilts All Stocks	2,698.86	2,729.41	1.1
Interest Rates			
Bank of England Base Rate			0.5%
ECB Refinancing Rate			1.50%
US Fed Funds Target Rate		0.00%	-0.25%

UK

Following much speculation, the Bank of England announced it would implement a further round of quantitative easing in an attempt to boost the economy. The Bank is gambling that inflation, which rose to 5.2% as measured by the Consumer Price Index in September, will begin to fall back in the next few months, with quantitative easing widely expected to increase long term inflation figures. Some critics have argued that increasing inflation and thus reducing the Government's debt in real terms, is in fact the Bank's main aim with quantitative easing.

EUROPE

Many would not envy Mario Draghi, who replaced Jean Claude Trichet as the head of the European Central Bank on 1 November, as he starts his new job the Eurozone crisis continues to unfold around him. Draghi has been seen as the de facto successor to Trichet since the announcement in February that the other potential candidate, Axel Weber would not be seeking the post. Draghi has previously held posts at Goldman Sachs, the World Bank and the Italian Treasury.

US

Adding to the improved GDP growth figures and strong equity market performance in the US was an announcement that 103,000 new jobs had been created in September. Although the overall unemployment rate remained at 9.1%, the new job figures exceeded most estimates and was accompanied by an upward revision to the figures for July and August. A closer look at the figures for September reveals that around 137,000 new jobs were created in the private sector, whilst 34,000 were lost in the public sector.

ASIA/PACIFIC

The Government in India is faced with a similar dilemma to that being experienced in China, how to control inflation without hampering economic growth? The Indian central bank increased its main interest rate for the 13th time in the last 19 months in October, with the rate now standing at 8.5%. At the same time, the central bank recognised the risk to growth, cutting its estimate for GDP growth in 2012 from 8% to 7.6%, approximately in line with the prediction of 7.5% from the International Monetary Fund.

EMERGING MARKETS

Efforts to locate the next star emerging market country, following a widespread acceptance that the BRIC countries (Brazil, Russia, India and China) are too advanced to still be considered emerging, continue with many analysts suggesting Indonesia as a likely candidate. The world's largest Muslim country has many plus points, including a low level of national debt, a young demographic and an advantageous geographical position in South East Asia.

FIXED INTEREST SECURITIES

A term being used extensively at the moment is 'Operation Twist', a policy adopted by the Federal Reserve in the US that will see them selling shorter dated government bonds and using the proceeds to buy longer dated government bonds. The hoped for effect will be to depress the yield on longer term bonds as the price rises, which will in turn help keep interest rates lower for the longer term, thus promoting lower interest rates for loans such as mortgages and cars.