

Monthly Update

February 2010

Markets Overview

World Markets

Cash

Sterling:

The Monetary Policy Committee (MPC) left rates unchanged at 0.5% following the February meeting and continued to pause its quantitative easing programme at £200bn. The annual CPI rate rose from 2.9% in December to 3.5% in January, which triggered a letter from Mervyn King to the chancellor explaining that he viewed this jump as 'temporary' and that the Bank of England expects inflation to fall due to the excess spare capacity in the economy. In the fourth quarter of 2009, GDP numbers were upgraded from 0.1% to 0.3%, however, revisions to the previous three quarters resulted in annual growth contracting by a faster pace of 3.2%.

US Dollar:

The Federal Open Market Committee did not meet formally in February, however, it did announce a 25 basis point rise in the discount (emergency funding) rate, signaling a return to a degree of normalcy in the banking system. Notwithstanding this, Ben Bernanke, the Fed Chairman, stressed rates would remain at exceptionally low levels for an 'extended period', citing high unemployment and a weak housing market as strong headwinds to economic recovery. US consumer spending rose in January by 0.5% and retail sales were also stronger than forecast, resulting in the savings rate falling to 3.3% from 4.2% in December.

Bonds

Sterling:

Yields on the two-year benchmark gilt fell 30 basis points while the yield on the 10-year benchmark gilt rose by 12 basis points, resulting in a steepening of the yield curve. The yield on 10-year gilts has moved above 4%, which has previously been a level at which the Bank of England has used its mandate under the quantitative easing programme to buy gilts and drive yields lower. With this process currently suspended, investors will be watching the position closely mindful of the MPC's comment that 'further purchases would be made should the outlook warrant them'. Corporate bond markets weakened slightly over the month, with investment grade debt outperforming high yield.

US Dollar:

An interesting story to emerge is the demand for US Treasury bonds fell by a record amount in December as China reduced its holdings by US\$34bn - this results in Japan overtaking China as the biggest holder of US-issued government debt. The yield on the 10-year benchmark Treasury ended February at 3.61% having initially risen following weaker than average auction demand. As a further indicator that the Fed was implementing a programme to remove emergency support to financial markets, it confirmed the bank would cease its direct intervention in the Federal Mortgage Agency bond markets.

Property (Sterling and US dollar)

Average capital values in the UK commercial property market have increased by 11% since their trough in July 2009, however, they remain 40% below their peak values in mid-2007. Investor confidence has returned and investors are seeking bargains in the 'prime' end of the market, though rental conditions remain weak and the number of transactions completing is very thin leading to what could be a distorted picture. The current attractive yield-gap between property and government bonds is set to narrow as the suspension of quantitative easing results in higher bond yields. This is likely to be a headwind going forward, as are public sector cut backs which will reduce demand for floor space.

| Index | Price | Up/Down on month |
|-----------------|-----------|------------------|
| FTSE 100 | 5,354.52 | ↑ |
| DJ Ind. Average | 10,325.26 | ↑ |
| S&P Comp | 1,104.49 | ↑ |
| NASDAQ | 1,818.68 | ↑ |
| Nikkei | 10,126.03 | ↓ |
| £/\$ | 1.5238 | ↓ |
| €/£ | 0.8946 | ↑ |
| €/£ | 1.3631 | ↓ |
| £Base Rate | 0.50% | ↔ |
| Brent Crude | 77.59 | ↑ |
| Gold | 1,117.6 | ↑ |

Prices quoted as at 28/02/10

Source: Bloomberg

Visit us on
www.fairbairnfb.com for
more product information

Monthly Update

February 2010

Markets Overview

World Markets

Equities (Sterling and US dollar)

General macroeconomic issues weighed heavily on sentiment in the early part of February, particularly the ongoing sovereign debt concerns over Greece and other Eurozone countries, including Spain and Portugal. The policy shifts announced by the Chinese government in seeking to control credit growth and apply the brakes to its fast-expanding economy were also negatively received given the significant influence China has on the global recovery. Against this backdrop, however, corporate earnings results were generally much stronger than forecasted and by the end of the month 75% of those S&P 500 companies that reported had beaten average earnings-per-share estimates. As a result, the index of top US companies rose by 2.9%, a number matched by the FTSE All-Share index which recovered most of the losses incurred in January. Emerging markets generally underperformed their developed market counterparts, although Latin American equities delivered strong returns to investors driven by an advance in commodity prices and the improving economic landscape in the US.

Alternative Investments (Sterling and US dollar)

Hedge Funds:

The asymmetrical risk/return profile of hedge funds is, for many, desired in an environment where so many other asset classes look fairly valued by standard measures and the macroeconomic outlook is so uncertain. There is a wide spread between the promise of hedge funds, measured by the HFRI index and the reality delivered of the investable HFRX index. This lack of transparency is driving the growth in hedge funds adopting the UCITS III structure and hedge fund replication products.

Commodities:

Commodity prices generally reversed the losses incurred in January, which were caused by Chinese tightening measures, and were buoyed by confidence around the global recovery and a growing acceptance that interest rates will stay lower for longer than anticipated. Brent Crude ended the month 8% higher at US\$76 per barrel and gold was higher by 3%, once again trading above US\$1,100 an ounce. This is close to the top of its moving average band and, from this technical perspective, is considered to be expensive. Further evidence of this is the current level of the gold/silver ratio, being the highest it has been for 30 years - this means either gold is overvalued, or silver is undervalued.

| Index | Price | Up/Down on month |
|-----------------|-----------|------------------|
| FTSE 100 | 5,354.52 | ↑ |
| DJ Ind. Average | 10,325.26 | ↑ |
| S&P Comp | 1,104.49 | ↑ |
| NASDAQ | 1,818.68 | ↑ |
| Nikkei | 10,126.03 | ↓ |
| £/\$ | 1.5238 | ↓ |
| €/£ | 0.8946 | ↑ |
| €/\$ | 1.3631 | ↓ |
| £Base Rate | 0.50% | ↔ |
| Brent Crude | 77.59 | ↑ |
| Gold | 1,117.6 | ↑ |

Prices quoted as at 28/02/10

Source: Bloomberg



SHORTLISTED
INVESTMENT PERFORMANCE
GROWTH PORTOLFIOS

Contact our team today

Andrew Bates
Tel: 0207 002 3600
Fax: 0207 002 3612 or email on
andrew.bates@fairbairnpb.com

A Member of the  OLD MUTUAL Group

Notice to readers: This document is not intended as an offer to buy or sell securities. The facts stated, and estimates and opinions given have been obtained from or based upon sources believed to be reliable; however no representation or warranty, express or implied, is made nor responsibility of any kind accepted either as to the accuracy, completeness or correctness of the information stated herein, or that material facts have been omitted. Any opinion expressed in this document is a matter of judgement at the time of writing and is subject to change without notice. Any price shown is only an indication of the middle market price at the time of publication. Prices may fall as well as rise and the income derived from them may fluctuate. Changes in rates of exchange or taxation may have an effect on the value of investments. Past performance is not necessarily a guide to future returns and you may not get back the original amount invested.

Fairbairn Private Bank is a registered trade name of Fairbairn Private Bank (IOM) Limited and Fairbairn Private Bank Limited. Fairbairn Private Bank (IOM) Limited is licensed by the Isle of Man Financial Supervision Commission to take deposits and provide investment services. Registered office: St Mary's Court 20 Hill Street Douglas Isle of Man. The London office is authorised and regulated in the UK by the Financial Services Authority. Registration No: 313189.