

# Monthly Update

April 2011

## Markets Overview

## World Markets

### Cash

#### Sterling:

The Monetary Policy Committee (MPC) left rates unchanged at 0.50% following its April meeting, a decision it repeated for the 27th consecutive time post its meeting in May. Evidence is building that the recovery is losing momentum and medium-term inflation worries have eased as consumers are reacting to the austerity squeeze. Recently published manufacturing and services Purchasing Managers' Index (PMI) data remain expansionary, however, they were both lower than last month's numbers which will concern policymakers. The latest housing surveys from both the Nationwide and Halifax indicate falling house prices and with mortgage approvals running at half their long-run trend, pessimism towards the UK economy appears justified.

#### US Dollar:

The 'mixed' nature of economic releases also applied to the US. Non-farm payrolls rose by 244,000 in April, although unemployment also rose to 9%, from 8.8%. Commentators have highlighted the latter can be explained by an increase in the number of people registering as looking for work as the outlook for jobs has appeared to improve. The number of long-term unemployed fell, which was a welcome fillip to the US administration given that numbers had been their highest since the Great Depression in the 1930s. Ben Bernanke has made it clear monetary policy will continue to be accommodative and cash markets are not anticipating a rise in policy rates until 2012. This rhetoric has added further weakness to the dollar which is now trading, on a price-adjusted basis, at its lowest level than at any time since major currencies floated in 1973.

### Bonds

#### Sterling:

Fears about the weakening economy, coupled with worrying 'tail risks' associated with European sovereign debt restructuring and elevated oil prices have caused investors to temper their risk appetite. This has resulted in capital flows into UK government bonds, which delivered a positive return of 1.93% in April. Evidence of a deceleration in global growth would be a further dent to confidence and support the view interest rates will stay lower for longer. Given the uncertainties that are escalating in the current environment, an allocation to bonds within client portfolios continues to be warranted. Investment grade corporate credit rewarded investors with a 2.35% return over the month.

#### US Dollar:

Economists argue setbacks to the outlook for growth are not uncommon for a post-credit bubble economy and softening economic data is reminiscent of the outlook at this time last year. US credit does still benefit from attractive valuations relative to government bonds and balance sheets are strong. Default rates are falling and the number of rating upgrades outnumbers the number of downgrades. The sluggish nature of the recovery has historically been a rewarding environment for fixed income investors and with the anticipated rise in yields fading as a near-term risk, asset allocators are likely to continue to support the asset class. Despite Standard & Poor's downgrading its outlook for the US for the first time since 1941, benchmark 10-year US Treasury paper rose by 1.21%.

### Property (Sterling and US dollar):

According to the Global Property Guide's house price survey, the housing market recovery has stalled. During 2010, only 15 countries for which quarter four statistics are available experienced house price increases, while 21 countries had house price reductions. However, 18 housing markets performed better in 2010 than the previous year, while 16 countries performed worse. In two countries there was no appreciable change since the previous year. In the UK, remortgaging approvals fell by 3,500 to 32,000. This is a higher number than this time last year, but significantly below its long-term trend, reflecting weak household credit growth.

Index	Price	Up/Down on month
FTSE 100	6,069.90	↑
DJ Ind. Average	12,810.54	↑
S&P Comp	1,363.61	↑
NASDAQ	2,404.08	↑
Nikkei	9,849.74	↑
£/\$	1.6707	↑
€/£	0.8862	↑
€/\$	1.4807	↑
£Base Rate	0.50%	↔
Brent Crude	125.89	↑
Gold	1,563.70	↑

Prices quoted as at 30/04/11

Source: Bloomberg

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#### Equities (Sterling and US dollar):

Despite the rally in government bonds, equities also enjoyed positive returns through April. The MSCI World Index (\$) was up 4.31% for the month, and has returned 9.44% year to date. Equities in the US delivered another month of robust returns based on positive earnings numbers reported by bellwether US companies. The weak US dollar has significantly increased the value of overseas earnings when translated back into the greenback and the beat:miss ratio of earnings was ahead of analysts expectations at a healthy 3:1. The weakness of the currency has prompted economists to identify a reversal of this trend as being one of the highest risks investors face in the near term. Dollar strength would be a threat to current valuations.

#### Alternative Investments (Sterling and US dollar):

##### Hedge Funds:

The HFRX Global Hedge Fund Index was up 0.47% in April and has returned only 0.87% year to date. Managers of funds of hedge funds continue to report a decline in assets under management, however, the asset class as a whole continues to attract investors. Trend-following, or momentum-driven strategies have successfully delivered attractive returns in recent years and asset allocators are increasingly committing capital to these managers as they seek to identify genuine risk diversifiers in times of market stress.

##### Commodities:

Given the uncertain environment, it is not surprising to see interest growing in gold as a better store of value than dollars. The central banks in Mexico, Russia and Thailand all added to their gold reserves which extended the longest winning streak for the yellow metal since the 1920s. The price of an ounce of gold has now risen 400% since 1999, which equates to a 15.3% annualised return. The price of oil also rose 6.76% in April and silver returned an incredible 27.19%, although it fell back sharply through early trading in May.

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Source: Bloomberg



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