Monthly Update
April 2010

fairbairn PRIVATE BANK

Markets Overview

Cash
Sterling:
Interest rates were held at 0.5% by the Monetary Policy Committee at its last meeting and the quantitative easing programme was also left unchanged at £200bn. Sterling enjoyed a solid performance versus the US dollar and the euro, particularly as the lead-up to the general election was expected to prompt some sterling weakness. The escalating sovereign debt crisis in Europe did, however, prompt a flight to the greenback as the month progressed. The preliminary reading for quarter one GDP numbers revealed a lower than expected 0.2% quarter-on-quarter rise, which served to highlight the fragility of the economic recovery in the UK. There was an upside surprise in the CPI number for March, which rose to 3.4% year on year, boosted by rising energy prices.
US Dollar:
The Federal Open Market Committee (FOMC) met in late April and its statement made reference to strengthening economic activity and evidence that the labour market was beginning to improve. The committee did express concerns household spending remains constrained by 'high unemployment, modest income growth, lower housing wealth, and tight credit'. The tone of the FOMC statement is eagerly monitored and the unambiguity of the words - 'economic conditions, including low rates of resource utilisation, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period' - maintained the clear message rates are set to remain low.

Bonds
Sterling:
Standard & Poor's downgraded Greek, Spanish and Portuguese debt during April - with the former receiving 'junk' status. Fears of contagion caused a flight to quality and gilts, which were beneficiaries of these capital flows despite the concerns surrounding the deficit in the UK. The view that the Conservative Party would win an overall majority in the next Parliament was also a fillip for gilts, and, although this was not achieved, the resultant coalition between the Conservatives and the Liberal Democrats has not, as yet, unsettled the government debt market. Rhetoric from the new administration has focused on the need to address the deficit and all eyes will be on the new chancellor and his team ahead of the emergency budget which is timetabled for June.
US Dollar:
US treasuries benefited from strong inflows during the month as investors sought this familiar safe haven in times of crises. Data releases led support to the view the recovery of the US economy was gaining momentum and this would normally trigger a rise in yields and a fall in prices. As we know, these are not normal times, and this buying pressure, coupled with a continuing benign outlook for inflation, has kept yields lower over the month. Corporate earnings news was particularly strong during April and this supported credit markets too.

Property (Sterling and US dollar):
A number of commentators have suggested UK commercial real estate prices may fall next year as investors' enthusiasm for buying stores, offices and warehouses wanes. An additional concern centres around the view banks will put more assets on sale as they refuse to refinance loans maturing next year that borrowers are unable to repay. UK commercial property prices have rebounded 13% since last July as investors turned to real estate after a rally in stocks and corporate bonds. The value of UK stores and offices collapsed 44% in the previous two years. Commercial property prices rose 3.9% in the first quarter, according to Investment Property Databank Limited. That was the third largest quarterly gain in 20 years and followed the 7.4% record gain in the previous three months.

World Markets

Index	Price	Up/Down on month
FTSE 100	5,553.29	↓
DJ Ind. Average	11,008.61	↑
S&P Comp	1,186.69	↑
NASDAQ	2,000.63	↑
Nikkei	11,057.40	↓
£/$	1.5274	↑
€/£	0.87053	↓
€/$	1.3294	↓
£Base Rate	0.50%	↔
Brent Crude	87.44	↑
Gold	1,179.20	↑

Prices quoted as at 30/04/10

Source: Bloomberg

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Equities (Sterling and US dollar):
Equity investors can be forgiven for feeling queasy during 2010 - in January, markets were down, they rose in February and March, only to fall again in April. After a number of bellwether stocks beat analysts earnings projections in quarter one, namely Coca Cola, Intel, Johnson & Johnson, Apple, JP Morgan etc, confidence in equities and other risk assets waned as the debt problems in Europe diverted the minds of investors away from corporate newsflow. Additional headwinds came from the securities fraud allegations at Goldman Sachs and the oil spill in the Gulf of Mexico. From a valuation perspective equities are considered to be reasonably priced, however, periods of heightened volatility are anticipated given the challenging structural issues faced by the global economy and the nervousness this creates.

Alternative Investments (Sterling and US dollar):
Hedge Funds:
Investors are increasingly looking for downside protection in the current environment, and while this is potentially costly and erodes overall returns, the expense is deemed worthwhile. Hedge fund strategies offering this return profile are receiving capital from global asset allocators and this trend is set to continue. The industry as a whole is repairing its damaged image, particularly via vehicles which afford investors liquidity and transparency.

Commodities:
Commodity prices advanced during the month amid continued expectations of a sustained global economic recovery and extended loose monetary policy. Oil prices made further gains, with Brent crude gaining over 7% for a three month rise of over 20%. Base metals were mixed after a strong March, while precious metals surged ahead, with gold up 6% to $1,180, around $30 below its all-time high. Gold remains the preferred hedge against inflation, financial market instability and a collapse in confidence in the fiat money system.

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