

February Market Review

February 2010

The last month has again been volatile. Equities provided the better returns against bonds and cash recovering from the recent sell off and heading up towards December highs again.

For UK investors global equity returns were boosted by the sell off in £ with the best returns coming from the USA and Emerging markets relatively out-performing the domestic UK market.

Within the domestic market large capitalised companies have out-performed medium /small type companies and there has been a lot of sector rotation with the main positive movers being sectors like Tobacco, Aerospace, Chemicals, Mining and Banks whilst Fixed Telecoms, and General retailers have retreated.

The main reasons for the positive turnaround in sentiment over the month have been:

- a) An improvement in Economic statistics especially in the states where we saw better than expected movements in Economic Growth, employment, personal income, manufacturing, consumer credit, housing starts, industrial production and subdued inflation. In addition the Bernanke Congressional Testimonial pointed towards maintaining lower rates which is positive as expectations had started to discount a move towards tightening especially after the hike in the discount rate
- b) Company earnings have exceeded expectations supporting the rally in the market
- c) The Continued appreciation in the \$ has been looked at from the perspective of a strengthening economic recovery
- d) No negative news from China and lessening concern about European debt issues given European leaders' assertion that there would be determined and coordinated action if necessary.

Bond markets overall have been weaker given the pressure on longer-term yields despite some pockets of strength across some of the maturities and higher yielding issues. The FTSE All UK property index was positive whilst both oil and Gold moved higher.

£ Ignored an upward adjustment in UK growth during the month and instead investors focused on the political and debt/austerity uncertainties forcing a general sell off even against the Euro which itself has been under pressure.

Whilst interest rates are held at low levels and earnings continue to improve on better economic fundamentals equities should continue to provide better returns than cash and Bonds at this point in the cycle (recovery). As mentioned in my previous

reviews the main test lies ahead as economies attempt to exit from their economic stimulus plans, we move potentially towards an interest rate tightening phase and earnings comparisons become less advantageous. The V shaped recovery suggests that the market is betting on a successful outcome i.e. a normal recovery. Any miscalculation could lead to a rapid turn around in sentiment and a reversal in asset prices.

This should lead to higher market volatility going forward and asset diversification and stock selection will be paramount.

I am of course obliged to remind you that all investments should be viewed as long-term, that past performance is no guarantee for the future and that the value of stocks can go down as well as up. Yields are not fixed and can vary.

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Investment Director

Indices	31/12/2008	31/12/2009	% Capital Change (£)
Global Equities			
FTSE 100	4434.20	5412.90	22.07
FTSE 250	6360.85	9306.90	46.30
Dow Jones	8776.39	10428.00	7.64
Dax 30	4810.20	5957.43	14.60
Hang Seng	14387.48	21872.50	41.30
Nikkei 225	8859.56	10546.44	5.00
Shanghai Composite (China)	1820.81	3277.14	62.80
UK Bonds			
UK Govt All Stocks	160.83	152.13	-5.40
Index Linked All Stocks	342.36	357.48	4.40
Currencies			
£/\$	1.4647	1.6168	10.40
£/Euro	1.0437	1.1279	8.10
£/Yen	132.64	150.38	13.30
£/HK\$	11.78	12.67	7.60
£/Yuan	9.98	11.03	10.50
Commodities			
Oil	42.29	78.51	68.20
Gold	880.15	1096.35	12.80
Indices	31/01/2010	28/02/2010	% Capital Change (£)
Global Equities			
FTSE 100	5188.50	5354.5	3.19
FTSE 250	9237.30	9344.39	1.16
Dow Jones	10067.33	10325.26	7.70
Dax 30	5608.79	5598.46	3.10
Hang Seng	20121.99	20608.7	7.46
Nikkei 225	10198.04	10126.03	5.86
Shanghai Composite (China)	2989.29	3051.94	7.19
UK Bonds			
UK Govt All Stocks	153.17	150.87	-1.51
Index Linked All Stocks	356.94	354.1	-0.80
Currencies			
£/\$	1.5983	1.522	-4.78
£/Euro	1.1528	1.116	-3.20
£/Yen	144.26	135.3	-6.22
£/HK\$	12.41	11.827	-4.78
£/Yuan	10.91	10.391	-4.76
Commodities			
Oil	71.22	77.44	8.73
Gold	1080.75	1117.25	3.37