

January Market Review

January 2010

The last month has seen a correction in equity markets from the spike up in mid to late December. The markets are now re-testing the support levels seen in November and early December. The emerging markets and Europe saw the worst of the sell off. There was some sector rotation into utilities and tobacco, with mining and basic materials taking the brunt of the selling.

The main reasons for the set back have been :

- a) The strength in the dollar causing a reversal in oil and commodities. It also caused those investors who were borrowing in dollars [to play overseas markets] to re-think their strategies.
- b) Indications that China was trying to reduce the stimulus effect by cutting back on lending led to fears about world growth. Also India raised concerns over rising asset prices leading to policy tightening.
- c) Problems in the Euro-Zone with regards to Greek sovereign debt issues as budget deficit size remained uncertain.
- d) The strength of US growth at 5.7% was viewed with some scepticism as to its sustainability.
- e) Plans for reforms to US banks was seen as a negative.

Bond markets benefited from the reduction in risk appetite with corporate bonds and gilts moving ahead, as well as short and medium dated index linked. Both bricks and mortar and property shares were relatively flat.

Sterling after rallying in 2008 was weaker against most currencies with the exception of the Euro which continued to weaken. This has reduced the impact from the fall in overseas markets in sterling terms

The Equity market was over due a correction / consolidation given the rally in 2009. As you can see from above, keeping a wide spread of asset classes given the long-term differences in risk/return can be beneficial.

We continue to hold the view that equities will out-perform bonds and cash at this point in the economic cycle [low interest rates and improvement in earnings] and would view any correction as a buying opportunity. We would expect returns to be more muted than 2009 and volatility to remain high ahead of a reduction in quantitative easing and the gradual move towards an interest rate tightening phase.

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 values of stocks can go down as well as up. Yields are also not fixed and can fall as well as rise.

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	31/12/2009	31/01/2010	% Capital Change (£)
Global Equities			
FTSE 100	5412.90	5188.50	-4.15
FTSE 250	9306.90	9237.30	-0.75
Dow Jones	10428.00	10067.33	-2.33
Dax 30	5957.43	5608.79	-7.90
Hang Seng	21872.50	20121.99	-6.10
Nikkei 225	10546.44	10198.04	0.80
Shanghai Composite (China)	3277.14	2989.29	-7.74
UK Bonds			
UK Govt All Stocks	152.13	153.17	0.68
Index Linked All Stocks	357.48	356.94	-0.15
Currencies			
£/\$	1.6168	1.5983	-1.15
£/Euro	1.1279	1.1528	2.20
£/Yen	150.38	144.26	-4.10
£/HK\$	12.67	12.41	-2.00
£/Yuan	11.03	10.91	-1.15
Commodities			
Oil	78.51	71.22	-8.24
Gold	1096.35	1080.75	-0.30