

May Market Review

May 2010

Gilts and Gold provided the better returns over the period benefiting from an increase in market volatility. Riskier assets were reduced leading to a general sell off in equities. This continued the trend seen in the previous month. Growth investors were the worst affected.

For UK investors the main weakness was in the UK and Europe although international markets were generally weak across the board.

Within the UK market both medium and larger companies performed more or less in line with each other over the month. Year to date both medium and smaller companies remain in the ascendancy relative to the FTSE100. The sector performances remain weighted towards cyclical areas (forestry and paper, industrials, electronics and techs) with some upward movement in personal goods, support services, beverages and mobile Telecoms. The disappointing areas are life insurance, real estate, utilities and oil and gas, which make up the bottom end of the rankings.

Traditional gilts were in demand with investors locking into the higher yields with the best returns occurring in the medium to longer dated issues. The 10 year gilt fell to 3.5% well below the recent 4% high. This was due to a flight to safety and a reduction in inflationary expectations. This in turn led to a mixed performance from index linked gilts. Investment grade corporate bonds were relatively stable but higher yielding corporates were the worst affected as credit issues came to the forefront. The Economic uncertainty pushed down the price of oil by 10.5% as demand expectations fell.

The currency markets saw a further sharp fall in £ against most currencies except the Euro.

Investors are currently being pulled in different directions. The negative sentiment is currently coming from the need for harsh fiscal adjustments in the Euro Zone/UK and the continued fall in the Euro/£ and the worry is that this will have a dragging effect on world growth. This is dominating the reality of a more positive background of improving global growth forecasts (OECD and IMF) and better than expected corporate results. The latter should be happening if we are in the early stage of recovery and is necessary to support the recovery in asset values over the last year. The truth is that investors are suspicious that the global stimulus effects and recent restocking has skewed the data and we have not yet reached a more normalised position.



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As in previous reviews we feel volatility will remain at higher levels given the range of issues confronting investors and would advise wide asset class diversification and stock selection with the emphasis on high quality assets.

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.

Dominic Sheehan
Investment Director

Indices	30/04/2010	31/05/2010	% Capital Change (£)
Global Equities			
FTSE 100	5553.30	5188.00	-6.60
FTSE 250	10366.00	9637.00	-7.00
Dow Jones	11008.00	10136.00	-3.10
Dax 30	6135.70	5964.00	-5.50
Hang Seng	21108.59	19765.00	-1.80
Nikkei 225	11057.00	9768.00	-4.20
Shanghai Composite (China)	2870.00	2592.00	-4.90
UK Bonds			
UK Govt All Stocks	153.01	154.90	1.20
Index Linked All Stocks	364.03	362.66	-0.40
Currencies			
£/\$	1.5273	1.4506	-5.00
£/Euro	1.1485	1.1819	2.90
£/Yen	143.31	132.22	-7.70
£/HK\$	11.85	11.30	-4.70
£/Yuan	10.42	9.91	-5.00
Commodities			
Oil	87.41	74.33	-10.50
Gold	1179.00	1216.35	8.60