GinsGlobal Index Funds

Investment Outlook – March 2008

Global Equities

The severe credit crunch has spread to Europe and Asia in large part due to the global banking system being controlled by global players.

UK and US Central bankers have been the most aggressive at seeking solutions to the crises – and have opened the spigot to the tune of hundreds of billions of US$ to ensure banks continue to lend and grant mortgages during this period.

The majority of US economists believe the US is currently in the midst of a recession. Volatile equity markets and the significant real estate correction underway underlie this feeling. There remains uncertainty regarding the extent of the US credit crunch and the broad-based knock on effect of the contraction within the twin construction and real estate sectors.

During March world markets continued to react negatively following the large sell offs earlier in the year. The MSCI World Index lost 1.0% in March. It is now down 9.1% for 2008. In April a rebound is expected as policy makers and financial institutions take positive steps to react to the crisis.

Outside of the US, the rest of the World as measured by the MSCI EAFE Index lost 1.5% in US$ terms during March, partly due to the weaker dollar, although it is down 9.5% for the year. European markets were down 2.7% in local Euro terms for March, and have lost 16.2% for the year to date.

The ECB remains steadfast fighting inflationary risks in the Eurozone and shows few signs of following the Fed's policy of significant rate declines – although the ECB is expected to begin a tiny amount of rate cuts by mid-year as the weak US dollar and recession begin to bite at Eurozone exports.

The broad MSCI US index of the top 750 companies lost just 0.4% for the month and is off 9.5% for the year to date. In local Yen terms the Japanese market as represented by the MSCI Japan lost 8.3% in March (Yen terms) and is down 17.9% for the year.

The broad Asian based - MSCI Pacific Index including Japan, was down 5.0% for the month in US$ terms, and is now off 10.3% for 2008.

Global Bond outlook

The Federal Reserve aggressively cut rates again in early March by 0.75% following aggressive cuts in January. Thus the Fed has now lowered the Fed Funds rate to 3% (a decline from above 5% just a few months ago). This dramatic easing has been accompanies by Fed priming the liquidity pump and providing close to $500bn of accommodation to banks.

As Bernanke seeks to counter the current US economic slowdown – his active management of the crisis is beginning to receive high marks. The saving of Berar Stearns thru the Fed's actions is a sign that the Fed will do what it takes to prevent anything beyond a mild recession.

The credit crises has meant that US mortgage origination has effectively dried up and despite Fed easing at the short end of the yield curve most homeowners have not yet experienced dramatic rate declines on their mortgages. Opportunities for refinancing have been very limited at the long end,

with 30 year fixed loans on larger homes remaining around 6%. A steepening yield curve has ensued.

The UK Central Bank is expected to also continue lowering rates throughout 2008. The weak US dollar has begun to impact the UK economy too.

A flight to quality has led to a flight away form certain emerging markets and non-US developed markets too. Further volatility in bond and credit markets is expected.
US Treasuries have seen a flight to quality leading the US yield curve lower – the 10yr Note is now at barely 3.3% well below summer levels of over 4.0%.

The Citibank Global Bond Index gained 3.2% in March and has now returned 9.7% year to date and 20.3% over the past 12 months. Short-term interest rates are under pressure for savers with Money Market US$ rates now just below 3.0%. Euro and UK Pound rates remain above 4.0% and 5.0% respectively, but are expected to decline throughout the year.

The European Government Bond Index returns were weaker in March, losing 0.6% in euros – but up 4.0% for the past year.