Investment Outlook – April 2009

Global Equities

Equity markets showed good recovery in April on the back of gains recorded in March.

Although talk of a recovery and green shoots pervade the press – the reality is that the fundamental economic data for Europe and US remained extremely grim with unemployment numbers pushing new highs. The US is still expected to top out at approximately 10% unemployment; although states such as Michigan and California are already approaching 11-12% levels.

US housing start and foreclosures continue to hit new highs as well as jobless claims. The US commercial property market is suffering dramatically – with lack of financing. One of the largest US REIT Companies – General Growth Properties, filed for bankruptcy as it is unable to refinance its vast portfolio of shopping centers – built on $25bn of debt.

Layoffs continue across all sectors, except health care and government.

The lack of a globally coordinated fiscal stimulus along with continued weak economic data has heightened fears that no early economic recovery or market rebound can be expected. German and Japanese export levels have recorded massive falls with their GDP .

We believe it is vital to have a well diversified portfolio that is defensive in nature – with a larger exposure to non equities until the volatility in markets is reduced. Nevertheless this is bargain hunting time in the leading equity markets and for investors with a medium to long term outlook this is surely a tremendous buying opportunity over the next 5 years

The MSCI World Index gained 11.2% after gaining 7.5% in March. The Eurozone gained 12.3% in April and is now flat for the year in Euro terms. The US gained 9.6% and is now down just 2.2% for the year.

Japan gained 9.2% in Yen terms – and is only down 0.80% for 2009, despite its economy sputtering to its worst export figures in decades.

Obama's plans to regulate derivatives, raise income and capital gains taxes, health care and other aspects of financial reform – have created fear in the markets as government's role becomes larger in the US .

It is clear the US financial system will continue to see failed banks and the real estate meltdown will persist for another 12-18 months – when prices are expected to bottom out. Housing prices have already fallen approximately 20-25% across most US markets – but further declines are expected.

Global Bond outlook

Spreads on corporate bonds remain high, but are expected to weaken over the next few months as market volatility eases. Corporate bond issuance has begun to improve and with yields possibly dropping -it remains an attractive investment from a capital gains perspective.

Fears still exist that the US Treasury market for bonds will be a bubble that is likely implode once interest rates begin to rise. Fears of deflation continue to exist, although most observers do expect interest rates to rise by 2010 as fears of inflation start to enter the market – due to the US stimulus plan and the new money being printed by the Fed. US rates on treasuries are at historical lows and many believe it is the next bubble to burst as confidence slowly returns to the equity market later in the year.

Coordinated rate cuts by the leading central banks has led to quantitative easing by the US Federal Reserve and UK Central Bank – effectively pumping billions of currency into their economies. Thus inflationary fears have started to rise and the threat of deflation appears to be receding.

Rates can only go up which could cause significant declines in US government bonds prices. As such we suggest being underweight in the government bond sector.

Spreads on corporate, high yield and municipal bonds over governments are now also at historical highs. The fallout from Eastern Europe means that the Swiss Franc and other currencies may be forced to devalue their currencies – including such exporters as China, South Korea and Brazil who have seen their exports fall off a cliff. IMF bailouts of Eastern European countries will help shore up Western European banking groups who have heavy exposure to the region.

The European Government Bond Index gained 0.6% for April following a 1.3% gain for March (euros). It is now up 9.1% for the past year. The World Government Bond gained 0.4% in April and is flat over the past 12months.

Consumer spending across the globe is expected to dry up and unemployment across the world will rise to levels last seen since the early 1970s. There is a growing fear that government bailouts will not have the desired dramatic impact and it will take considerable time to work through the system – with mid 2010 now being the date where economies may show some relatively decent signs of growth.