GinsGlobal Index Funds

Investment Outlook – April 2010

Global Equities

World markets saw increased volatility in April. By the first weeks of May this had grown into a fully fledged crisis with the European sovereign debt crisis becoming front and center. Led by concerns over possible Greek debt defaults, the ECB and EU states provided a rescue package in early May worth $1 trillion. However markets are not convinced that piling on more debt to rescue weaker Eurozone members such as Portugal, Spain, Ireland and Greece is going to solve the immediate crisis. These countries all have double digit fiscal deficits and a weakening Euro seems to be their only viable solution to create a more competitive environment for their manufactures and exporters. The markets is now expecting the Euro zone to inflating its way out of the debt crisis, by pumping in more money form the ECB to buy up government bonds and effectively devalue the currency relative to the US$, Yen and other leading industrialise currencies such as the Swiss Franc. By mid May, the Euro was trading at a 4 year low to the US$.

The markets remain very uncertain with volatility levels spiking to previous highs not seen since 2008. The MSCI World Index ended April flat and was up 3.3% for the year to date. However by mid May these 2010 figures had turned slightly negative.

The Eurozone lost 2.5% for the month (in Euros) – the weaker Euro has also compounded these equity losses for investors seeking US$ returns. The US$ has reasserted it safe haven status and the UK's Sterling currency has also retreated to its weakest levels since the 2008 crisis at 1.43 to the US$. The dramatic belt tightening required by the Eurozone and UK public sector indicates that the US economy will likely power ahead of most industrialised regions except for Asia.

The MSCI Asia Pacific Index reported gains of 0.6% for April and is up 4.5% for the year.

The growing crisis in Europe has reduced the likelihood of the Fed increasing rates any time during 2010. In fact the Fed is assisting the Eurozone by opening up swap and lines of credit facilities to Eurozone countries and their treasuries.

Although these weaker currencies should help boost UK and Eurozone manufactured exports, no fast turnaround is imminent. In fact Eurozone economic growth is expected to be far slower now than any US or Asian recovery and structural unemployment is growing across Europe.

Although US companies on the S&P 500 have mostly beaten market expectations regarding their earnings, much of this is on the back of once off expenditure cuts. Top line growth remains anemic at best.

The US (listed REIT index) property market posted another positive gain of 7.1% for the month – recording a 17.6% return for the year to date. The European property market by comparison retreated 4.1% for April and is now flat for the year in Euros.

It is clear the US financial system will continue to see failed banks and the real estate meltdown (specifically commercial properties) will persist for another 12-18 months – when prices are expected to bottom out. Over 300 banks have failed since the crisis began. US government financial reform is shortly expected to be passed, adding further costs and pressure on large banks and financial institutions. Another looming concern is the refinancing of massive amounts of commercial real estate and private equity transactions over the next 24-36 months which will test the robustness of the recovery.

Global Bond outlook

Despite improved job outlook figures and recent monthly gains in employment – the recovery is anemic on the jobs front. Real estate in both residential and commercial arenas is also lacking any significant turnaround. The weak US economic recovery plus concerns in the Eurozone indicate the Fed will be in no rush to raise rates during 2010. Any action on this front is now likely to be delayed given the spiraling sovereign debt crisis in Europe and worries regarding the UK economy.

The lack of inflationary pressure and lack of bank lending seems to have put the threat of inflation to one side for now.

By comparison, the European Central Bank has been under tremendous political pressure to play a more activist role in helping to reboot the Eurozone and indeed save the weaker members from defaulting on their government debts. The ECB has stepped in with promises to effectively buy hundreds of billions of Euros worth of southern European debt – this led to borrowing rates amongst some of the weaker members dropping by half on the day of the ECB's intervention being announced. This quantitative easing and propping up the Euro Bond market – will cause inflationary pressures over the next 18 months.

The ECB has effectively brought the Eurozone into a closer political union in conjunction with the IMF stepping in with a bailout package worth more than Euro 200bn.

In Europe the government bond benchmark was slightly down for the month but remains up by approximately 1.3% for the year. The World Government Bond Index by comparison lost -0.4% in US$ terms for April and is down 1.7% year to date.

Given the tenuous nature of the residential and commercial real estate markets in the US, the Fed has no desire to make mortgage finance more expensive for prospective borrowers – thus the Fed's support of the mortgage markets through the purchase of mortgage securities while being dramatically reduced will not evaporate as some analysts suggest.

The Fed holds large swathes of US bond market securities to prop up the mortgage and corporate bond markets. Given the weak economic recovery expected and problems in the real estate industry in particularly, the Fed will not likely unload its holdings as fast as some predict. Nevertheless at a minimum the lack of Fed buying power will likely lead to increased US mortgage rates and rates at the long end of the yield curve.

A 2nd wave of US foreclosures is only now beginning to hit as further layoffs effect the market. Currently 1 in 5 US home owners are behind on their mortgage payments or are affected by negative home equity. Persistent high unemployment rates will continue to dampen any real estate recovery well into late 2010. Unemployment losses are expected to peak by mid 2010.

A sustained global economic recovery remains under threat due to huge structural deficit problems in certain Eurozone countries including the UK, Greece, Spain and Ireland. The US is expected to recover far quicker then the Eurozone. It is hoped that Asia will outdo both these two old world economic regions.