GinsGlobal Index Funds

Investment Outlook – August 2009

Global Equities

Global Equity markets posted a 4.1% gain in August based on the MSCI World Index return. For the year it is now up 20.1% in 2009, and down 17.2% over the 12 month period. Given the extreme market turmoil last September and doomsday reports with Lehman failing and the bailouts of AIG, Freddie Mac and Fannie Mae, it is remarkable how well the market has recovered since its March 9th lows.

Many analysts expect the market to remain in a tight trading range, however there is a growing chorus expecting the Dow to regain its 10,000 level shortly. By mid September the Dow had hit a record high of 9800 and 10,000 is within reach. The S&P 500 was also approaching 1100 levels – something few predicted just 3 months ago. The FTSE 100 is now at 5000 levels, the Nikkei has pierced the 10,000 level, the Dax is at 5500 levels and the Hang Seng is recovering to almost 22,000.

US unemployment numbers remain at 9.7% although jobless claims continue to remain stubbornly high. A consensus has emerged that any recovery in 2010 will be mostly jobless, with unemployment peaking in mid-late 2010.

Bernanke's comments that the US is likely to emerge from the recession in the 3rd quarter of 2009 – has helped send the market to new highs. The economic outlook remains mixed with real estate remaining a big drag across the US and Europe. Large banks are still hoarding much of their cash and have dramatically reduced commercial property lending. Any increase in interest rates will have a hugely negative effect on property markets. Fortunately the spectra of inflation remains muted for now.

Emerging markets continue to post impressive recoveries off their early year lows. Global demand for commodities is expected to pick up on the back of the China stimulus. Oil is expected to settle between $75-100 by 2010, however for now the weak economic recovery predicted for Europe and the US has caused oil to remain in a tight $60-75 trading range.

For the month of August, the US Market (MSCI USA) grew 3.4% and is now up 14.9% for the year. By comparison the MSCI EMU (Eurozone) rose 5.6% in euro terms for the month and is now up 18.8% for the year. The US REIT market posted a 14.6% gain and is up 10.0% for the year.

The global market excluding the US (MSCI EAFE) rose 5.2% for the month and is now up 21.1% for the year in US$ terms. Pacific markets (MSCI Pacific) gained 3.5% for the month and are up 19.3% for the year in 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. Over 150 smaller US banks are expected to have been closed by year end. To date the number is almost 100.

Global Bond outlook

With Bernanke announcing that the US recession is likely over by the end of the 3rd quarter, some observers expect to see interest rates begin to rise within the next 3-6 months. While some central banks, notably in Israel and Australia, have begun to either raise rates or indicate such measures are imminent, the sluggish US and European recoveries should see a muted rate cycle for another 6 months with authorities delaying any increases.

Fortunately the threat of inflation is barely visible to the Fed, so this will help low rates to endure until well into 2010 - fueling the nascent economic recovery and assisting the real estate market regain its footing.

The Fed and ECB are withdrawing their quantitative easing measures as the private sector begins to pick up the slack once more. The US government will no longer guarantee money market funds or other bond purchasers by year end.

The Fed has to still convince the market that it is not going to let inflation loose, so it is a delicate path Bernanke needs to walk.

US economic recovery is sluggish at best and any significant recovery is now being put off until mid 2010, although the longest running recession in 30 years is expected to officially run its course before year end.

Recently US Government bond yields began a pick up – especially the 10yr Treasury Note reflecting possible fears of inflation. The bad news is that the mini mortgage refinancing boom that was kicked off earlier in the year after the Fed's entry into the bond market drove rates downward - has since fizzled out with mortgage rates recently jumping as much as 1% on 30yr fixed loans – to 5% levels. Larger mortgages above the $417,000 threshold of Fannie Mae have moved up beyond 6.2% which is stifling activity at the top end of the market.

Meanwhile a 2nd wave of foreclosures is beginning to hit as further layoffs effect the market. Rising unemployment will continue to dampen any real estate recovery well into late 2010.

Spreads on corporate, high yield and municipal bonds over governments have come down dramatically over the past quarter as well as LIBOR spreads. This new normalcy has led to steady bond returns the past few months.

The European Government Bond Index gained 0.5% for the month and is now up 10.6% for the 12 month period. The World Government Bond gained 2.0% for the month and is now up 9.9% over the past 12 months.