GinsGlobal Index Funds

Investment Outlook – July 2009

Global Equities

Global Equity markets continued where they left off in June; and continued to post impressive gains for July. Many market observers expect the markets to finally take a break from the impressive 40-50% equity gains off their early March lows.

However given the debt overhang, weak consumer demand and growing unemployment, a period of anemic economic growth is expected as we approach 2010. The period of sustained 3% US economic growth is now behind us and with little credit available, the US economy is expected to grow at far less robust rates over the next 5 years.

There still remains skeptism that the green shoots are convincing. However better than reported earnings numbers in Europe and the US do point to signs of economic stabilization, and there are some sectors such as technology where the worst is over.

Nevertheless a decidedly mixed picture is emerging regarding how sustained any economic recovery will be. Central bankers are expected to keep rates at these extremely low levels well into 2010. This is based on any inflationary threat being deemed a long way off and current risks are minimal for inflation. Indeed there is still talk of deflation in some industrialized markets.

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 and oil is expected to settle between $75-100 a barrel by 2010.

By mid August the S&P 500 was stabilizing above the 1000 level while the Dow is trading around the 9500 level. The FTSE 100 is now at 4800 levels, the Nikkei has pierced the 10,000 level, the Dax 5400 levels and the Hang Seng is recovering to a range of 20,000.

For the month of July, the MSCI World rose 8.5% and MSCI Europe 9.5%. For the year, global markets are now up by 15.4% although are down 21.6% over the 12 month period. The global market excluding the US (MSCI EAFE) rose 9.1% for the month and Pacific markets (MSCI Pacific) gained 6.6%.

Although talk of recovery and green shoots pervade the press – the reality is that the economic data for Europe and US remains extremely mixed as overall unemployment numbers are pushing new highs.

The US is now expected to top out at an 11.5% unemployment level – not seen in over 25 years. States such as Florida, Michigan and California are expected to approach their worst levels since World War 2 with unemployment rates approaching 15%. Over 7 million American have now lost their jobs since the recession hit in 2007. Estimates are that unemployment when factoring in under-employed and furloughed workers, would reach 16% currently.

US housing is expected to still lose another 10-15% over the next 12 months when analysts predict it will begin to bottom out. The US commercial property market continues on its downward spiral and major commercial property organizations are struggling to refinance their debt. Maguire Properties, the largest owner of Class A office buildings in Los Angeles, may have to file for bankruptcy before year end.

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 also close by year end. To date the number is almost 80.

Global Bond outlook

Interest rates in the industrialized world are expected to remain at historic lows for the next 6 months as Central Bankers try to resuscitate their moribund economies.

The threat of inflation seems to be less of a worry amongst the Fed decision makers and they are expected to continue with monetary easing for a significant period. With Bernanke's reappointment he may be more aggressive in certain policy stances going forward – such as removing the Fed from certain bond purchases and other quantative easing measures.

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 terminate 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. 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 affect the market. A number of banks had also observed a 90 day moratorium whereby they did not actively foreclose on their clients. This 90 day period is now over.

Fears still exist that the US Treasury market for bonds will be a bubble that is likely to implode once interest rates begin to rise. US rates on treasuries that were at historical lows have begun to spike upwards, negatively affecting bond fund performance. Rates can only go up; which have begun therefore to cause significant declines in US government bond 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 European Government Bond Index gained 1.7% for the month and is now up 11.5% for the 12 month period. The World Government Bond gained 1.8% for the month and is now up 5.6% over the past 12 months.