GinsGlobal Index Funds

Investment Outlook – June 2010

Global Equities

Equity markets remain under pressure due to the uncertainty concerning the US recovery. The likelihood of a double dip recession in the US is extremely low, but growth is likely to be very weak for the duration of 2010. The US jobless recovery will continue to put a damper on any housing or real estate recovery. The unemployment rate is expected to remain around 9% for the next 6-12 months – a 25 year high. Many commentators wonder if the 8 million jobs lost during the recession will ever return. It is worth noting, however, that the US has averaged GDP growth of 4% since the 2nd quarter of 2009, so the current weaker data is off a recent strong base. Fiscal stimulus is abating and inventory restocking that powered the economy the past year, is coming to an end. The risk of any inflation has receded and this will help the Fed keep any rate rises on hold for the foreseeable future. Weak Eurozone growth will further constrain any Fed tightening that may have been predicted for late 2010.

Despite this, we believe valuations are cheap in the US (S&P 500 pe's are trading at 15) – and believe any further sustained slowdown or correction is unlikely. Favored areas are the US and emerging markets, as Europe seeks to get its house back in order. The austerity measures being introduced across the Continent means that European growth will be hampered for at least the next 12-24 months. Spanish unemployment has hit 20% levels and a Greek default or massive restructuring of its debt is still predicted by many.

Remarkably, sentiment has already begun to turn positive on the Euro which has touched 3 month highs against the US$ at levels of $1.30 – an almost 9% rebound off its recent lows. A stronger British Pound is also likely to assist US exporters – all this is bullish for the US stock market.

The MSCI World (All Country) Index lost 3.1% in June and is down 9.4% for the 2010. The MSCI US market by comparison lost 5.4% for the month and is down 7.0% for the year. Outside the US as measured by the MSCI EAFE, the monthly return was a negative 1% and it is now down 13.2% for the year.

More defensive sectors have outperformed during this correction which has seen a 16% loss in the MSCI World Index from its April peak. While the global energy sector is down 17.2% for the year (MSCI Energy) and Materials/Mining is similarly down 13.8% - by contrast, the Consumer Staples Index lost only 4.5% for the same period and Industrials are down only 3.7%.

Commodity prices have declined given the recent market turmoil – gold is now below $1200 an ounce and oil prices have retreated to the $70 per barrel range.

We remain bullish on the Asia-Pacific region excluding Japan. China (down just 0.5% in June) - has announced a more flexible exchange rate policy, while no significant tightening has occurred. Other key emerging markets such as Brazil (up 6.8% in June) and Taiwan (up 5.0% for the month) are expected to power the region and emerging market growth.

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Global Bond outlook

Historically low interest rates in the US and developed markets are expected to persist for longer than previously expected. The risk of inflation has receded. With US unemployment rates are at 25 year highs, wage growth is nonexistent and US consumers are still laboring under way too much debt –Thus consumer spending will remain weak and prices will be under little pressure to rise. It will likely take years for US consumers to repair their balance sheets –therefore consumption and spending will be weak during this period.

The Fed will keep rates at these historical low levels as long as possible to assist a recovery in the housing and broader real estate markets.

Given weak corporate lending, the Fed has no desire to raise rates – in fact Chairman Bernanke is actively encouraging banks to increase their lending books too small business so that these businesses can begin to add to their payrolls and production. 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.

In Europe, the market is now expecting the Eurozone to inflate its way out of the debt crisis, by pumping in more money from the ECB to buy up government bonds and effectively devalue the currency relative to the US$, Yen and other leading industrialize currencies such as the Swiss Franc. Consequently both the ECB along with the Fed, is also expected to keep rates on hold for far longer than earlier expected. The sovereign debt crisis playing itself out in the Eurozone is far from over – the recent Euro 750bn government bailout has still not fully appeased markets. Given that bonds are a virtual safe haven from equities, it was not surprising to see the European Government Bond Index lost almost 1% in June although it is up 2.2% for the year.

The Citibank Global Bond Index gained 1.7% for June given the expectation of low rates persisting. For the year to date it is however down 1.0%.

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

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.

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 than the Eurozone. It is expected however that Asia will outdo both of these two old world economic regions.