GinsGlobal Index Funds

Investment Outlook – March 2009

Global Equities

Equity markets showed some lively recovery in March after a dramatic fall in February. The oversold positions in February led to buyers streaming in and picking up bargains.

Nevertheless economic data for Europe and US remained extremely grim with unemployment numbers pushing new highs. The US is expected to top out at approximately 10% unemployment although states such as Michigan and California are already approaching 11-12% levels.

The US commercial property market is suffering dramatically – from lack of financing. One of the largest US REIT – General Growth Properties filed for bankruptcy; being 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 alongside a well coordinated US bank rescue plan has heightened fears that no early economic recovery or market rebound can be expected.

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 7.5% after losing 10.2% in February. The Eurozone gained 4.0% in March after losing 10.9% the previous month (in Euros). The US gained 8.5% after coming off a loss of 10.4% in February. The MSCI World reported a decline of 11.9% for the year so far in US$ terms.

Japan gained 3.1% in Yen terms as its economy sputtered to its worst export figures in decades. The Nikkei is currently at 25 year lows and remains down 36.5%. form 12 months ago.

Increasing worries over real estate write downs, lack of bank liquidity and esoteric financial instruments have created fear in the markets. The S&P 500 is now at levels last seen 12 years ago.

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

The upward sloping US yield curve has been helpful for bank earnings. However corporate bond issuance remains weak and fears exist that the US Treasury market for bonds will be a bubble that is likely to 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 – 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 1.3% for the month (euros) but is up 5.8% for the past year. The World Government Bond gained 2.5% in March – although it is down 4.8% for 2009.

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.