

## MARKET OUTLOOK FOR APRIL 2011

### Global Investment Strategy

An unremarkable rise of 8.9 points in the FTSE 100 Index for the first quarter of 2011 masks the gyrations witnessed in the market during March, as investors have had to contend with several geo-political tensions and the devastation caused by Mother Nature in New Zealand, Australia and then Japan on 11th March.

In the UK, the Monetary Policy Committee remains acutely aware of the potential damage of interest rate rises on the consumer, especially ahead of the looming job cuts in the public sector. However inflation rates are continually coming in above the Government's target, and in February we saw a 4.4% increase in the Consumer Prices Index. The Retail Prices Index, which takes account of housing costs, also rose to a 20 year high of 5.5%, up from 5.1%. Accordingly, we are preparing for the inevitability of more expensive money.

In general Economists are forecasting that the Committee will raise interest rates earlier than expected, but it does not look likely that

Andrew Sentence, as the outspoken Hawk on rates, will approve an increase prior to his term on the Committee ending on 1st June.

In the US, recent jobs data has been well received by the markets and the unemployment rate is now falling, suggesting that the economy is recovering. The private sector could still take up the slack in the labour market although the housing market continues to struggle with falling prices still evident. Coupled with this, Global Merger and Acquisition activity was 26% higher in Q1 with a staggering £350bn worth of activity, suggesting company Executives are gaining confidence in the recovery and are once more willing to take on bank loans after a frantic period of repairing balance sheets following the financial crisis – will lessons ever be learned?



Investors have now become familiar with the acronyms, BRIC (Brazil, Russia, India and China), MENA (Middle East and North Africa) and PIIGS (Portugal, Italy, Ireland, Greece and Spain) all

countries which have been dominating headlines and it seems causing concern. The unrest witnessed first in Egypt and then spreading to Yemen, Syria and Libya has been caused by one of our previously highlighted global trends; that is food price inflation. In China, the authorities have increased interest rates for the fourth time in five months, and although headline inflation is around five percent, food inflation is closer to seven percent and this has a disproportionate impact on the less wealthy population. We believe food costs will continue to be a major issue for many economies for the years ahead.

In Europe, Portugal has resisted calls to accept an International bail-out, however, with the Government having now resigned following the defeat of its fiscal reform proposals and rating agencies continuing to downgrade the country's sovereign debt, yields in the country have now risen to Euro-era highs of around ten percent and a bail-out seems imminent.

Teutonic plate movement has also brought unexpected concerns to the markets following the Earthquake in Japan on 11th March, and we now have the subsequent tsunami and nuclear clear-up which will undoubtedly harm the country's growth prospects. With Japan accounting for around 9% of Global output, disruptions to the country's production, (as a result of continued power outages), will

impact on international supply chains and does not bode well for the Global recovery over the short term.

### **Commodities**

Owing to the unrest in the MENA regions, the price of oil has spiked to around \$120, further stoking our inflationary predictions. The recent flooding in Queensland has resulted in reduced supplies of thermal coal to Asia, and UK listed Xstrata has signed a record contract at \$130 a tonne, some 32% higher than last year's prices. Meanwhile in the precious metals markets, silver has recently been trading at a new high and gold continues to trade above \$1400.

### **Currencies**

The strength of the Japanese Yen in the days following the earthquake was driven by speculators who were soon chased from the markets by the concerted efforts from the Bank of Japan and other central banks who intervened to the tune of ¥700billion. The Euro has been buoyed by heavy hints from Jean-Claude Trichet, the European Central Bank president, that interest rates are likely to rise in the short term, whereas, the Dollar has remained relatively weak as investors cannot see interest rates moving up in the US until the fourth quarter, at the earliest.

## **Bonds**

Although widely expected to be net sellers of foreign bonds to repatriate assets, recent data has not shown the Japanese as having been particularly active in the bond markets. Insurers in the country, who will have to pay out to cover losses, are likely to use their vast reserves and holdings in Japanese Government bonds for payments, rather than sell their higher yielding foreign holdings.

## **Conclusion**

Whilst geo-political tensions remain, markets are unlikely to make significant progress and any further shocks could well harm investor sentiment which has so far proved fairly resilient this year. As we enter the first quarter reporting season, analysts will be looking for reassurance that the global economic recovery continues. Believe it or not we remain positive on our 2011 outlook whilst mindful of potential pitfalls and commitment to our long term core investment themes should continue to prove rewarding.