



Newsflash

A new month and the thirty fourth issue of Viewpoint from FP.

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Global emerging market equities continued to show a clean pair of heels to other risky assets when it added 17.1% to bring the year to date total to just shy of 38%. Compared to global equities (up 6.8% for the year to date in US Dollar terms), US high yield bonds (+27.2%) and commodities (+13.7%), it has provided investors in these markets with some respite following the losses in 2008. It is interesting to note that emerging markets reached its bottom in October last year, whereas developed equities only bottomed early in March 2009.

“Sell in May and go away” is an old adage that still needs to be proved wrong in 2009. Most risky assets performed well during the month, whilst traditional low risk assets in the form of government bonds sold off. Some market commentators use the 200 day moving average as a significant indicator that signals either longer term bull or bear trend. The MSCI World Index broke through its 200 day moving average in the middle of April, and has remained above that level since. Global equity markets were a lot more nervous throughout most of April and May, most probably on the back of the publication of worse than expected economic data. The World Bank revised its March 2009 forecast stating that the recession will be deeper than previously thought and this has added to uncertainty in capital markets in June.

MSCI World (TR)



In May global developed market equities added 9.1%, taking it into positive territory for the year (+6.8%). Regional equities also performed well, with the S&P500 (+5.5%), FTSE All Share (+4.2%) and Japanese Topix (+7.2%) all delivering solid returns.

Government bond yields have increased steadily throughout the month causing US Treasuries (-1.1%), UK Gilts (-1.1%), Japanese government bonds (-0.3%) and government bonds across the Eurozone (-1.3%) to lose some value for their investors. With yields increasing, global government bonds are moving into fair value territory; more specifically the US 10 year treasury starts looking attractive with a yield around 4%.

Investment grade corporate bonds and high yield bonds continued to do well during May, with US High Yield bonds adding 6.7% for the month. For the year to date high yield bonds in the US and Eurozone have delivered exceptional returns; up 27.2% in the States and 33.6% in Europe. High yield bonds typically rally after defaults have peaked and we expect this to happen towards the end of 2009 or early into 2010. The current rally is therefore probably attributable to the large sell off of these bonds that we saw in 2008, and we may see a moderation of returns towards the second half of the year. Investment grade bonds still offer good value and with a spread of around 330 basis points over treasuries (in the

US) it should be considered as a very suitable candidate for balanced portfolios.

Global convertible bonds benefited from the rally in equity markets as well as the solid performance of corporate bonds and as a consequence added 5.8% for the month. This asset class has now returned close to 16% for the year and in our view offers further value to investors, with the obvious downside protection in the form of a bond floor.

In line with our view that the global economic recovery could be led by the Asian market, property securities in this region continued its move into positive territory delivering 15.6% for the month of May. In 2009 Asian property has now returned 18.6%, outpacing the US (-10.3%), UK (-16.1%) and Europe (+7.0%). Following global property's recent recovery after its March lows we expect performance to be slightly more subdued if markets enter rough waters again. Opportunities in the property market will probably present themselves in the form of direct property investments of physical residential and commercial property holdings, perhaps even in the form of syndication. For the investor willing to accept liquidity constraints the purchase of the right property from a distressed seller may prove quite profitable in the next couple of years.

The US Dollar seemed to once again follow its more recent inverse relationship with risky assets – when markets do well it depreciates against its major counterparts. The greenback lost value against the euro (-6.8%), Sterling (-8.8%) and the Yen (-3.1%).

Commodities in May made up for a lot of ground lost in the second half of last year, with oil (+22.2%) leading the charge of the “real assets”. Gold is now up over 13% for the year, justifying its inclusion in many balanced portfolios early in the year. Its role as insurance during times of risk aversion may well be tested in the months to come...

Asset Class Performances

Asset Class/Region	Index	Currency	May 2009	YTD 2009
Equities				
United States	S&P 500 NR	USD	5.5	2.6
United Kingdom	FTSE All Share TR	GBP	4.2	4.1
Continental Europe	MSCI Europe ex UK NR	EUR	4.2	4.9
Japan	Topix TR	JPY	7.2	5.8
Global	MSCI World NR	USD	9.1	6.8
Global Emerging Markets	MSCI World Emerging Markets TR	USD	17.1	37.9
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-1.1	-4.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	2.1	4.8
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	3.9	5.4
Us High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	6.7	27.2
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.1	3.0
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	2.8	-1.4
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.3	0.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.8	4.2
Euro High Yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	13.0	33.6
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.3	-1.2
Global Government Bonds	JP Morgan Global GBI	USD	3.0	-2.0
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	3.2	0.6
Global Convertible Bonds	UBS Global Convertible Bond	USD	5.8	15.8
Property				
US Property securities	MSCI US REIT TR	USD	2.1	-10.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-4.6	-16.1
Europe ex UK Property securities	FTSE EPRA/NAREIT Europe ex UK TR	EUR	3.3	7.0
Asia Property securities	FTSE EPRA/NAREIT Asia TR	USD	15.6	18.6
Global Property securities	FTSE EPRA/NAREIT Global TR	USD	5.1	1.5

Source: Lipper Hindsight, June 2009

Asset Class/Region	Index	Currency	Mar 2009	YTD 2009
Currencies				
Euro		USD	6.8	1.8
Sterling		USD	8.8	12.2
Yen		USD	3.1	-5.0
Australian Dollar		USD	9.0	14.8
Rand		USD	5.5	15.0
Commodities				
Commodities \$	RICI TR	USD	16.7	13.7
Agricultural Commodities \$	RICI Agriculture TR	USD	10.3	7.1
Oil \$	Brent Crude Index (ICE) CR	USD	22.2	56.8
Gold \$	Gold index	USD	10.4	13.3
Interest rates				
	Last meeting		Current rate	Last change
United States	29 April 2009	USD	0.25%	0.00%
United Kingdom	4 June 2009	GBP	0.50%	0.00%
Eurozone	4 June 2009	EUR	1.25%	0.00%
Japan	16 June 2009	JPY	0.10%	0.00%
Australia	5 May 2009	AUD	3.00%	0.00%
South Africa	30 April 2009	ZAR	8.50%	-1.00%

Source: Lipper Hindsight, June 2009

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