Global Market Review

informed RCM

4th Quarter, 2009

- Global equities, as represented by the MSCI World index, made modest gains during the fourth quarter, up 3.2%. In such a volatile year, the final quarter of 2009 could be seen as a period of consolidation. Materials led the markets up as commodity prices continued to rise and China's economic recovery lent confidence to investors in this sector. The IT sector was also very strong during the quarter. Having managed expectations into the downturn well, the sector benefited from their cautious approach as several technology giants including Apple, Google and IBM reported strong figures. The Financial sector was the foremost underperforming sector during the quarter as the upward momentum in earnings recovery paused, equity supply increased, valuations were reassessed after the strong bounce in share prices, and specific concerns arose about sovereign debt in Dubai and Greece. These events served to highlight the continuing credit risks and high outstanding debt despite the sharp recovery in equity markets.
- Utilities continued to underperform most other sectors during the quarter. As the commodity markets dropped sharply in the downturn, Utilities' earnings revisions have been heavily downgraded for the next few years. This lack of growth in a time when the market is looking for an increase in earnings expectations as the economy recovers has not been received well by investors and the sector has lagged the overall market in the recent upward rally. The Utilities sector was the leading underperformer in 2009.
- October represented a month of two halves. Positive market returns were seen in the first part of the month as broadly better-than-expected macro economic data was received from the US and Europe and positive third quarter earnings announcements were made. The second half was more risk-averse as caution returned to the market following some mixed corporate earnings and weaker-than-expected consumer confidence data.
- US third quarter GDP figures reported growth at a robust 3.5% annualised pace, slightly higher than market expectations. The gains were driven by improvements in consumer spending; small advances in business investment in equipment and software (which helped the IT sector); strong housing figures and finally the pace of inventory liquidation slowed modestly after accelerating in each of the past three quarters. The UK, on the other hand surprised the market as third quarter growth contracted by 0.4% quarter on quarter. In contrast, China's GDP was reported to have risen by a strong 8.9% year on year.
- November was again a positive month for global equities as macroeconomic data was generally supportive and fresh highs for the year were made in commodities, notably gold. The announcement by Dubai World (the government-owned investment company) that it asked creditors if it could postpone forthcoming payments for six months caused concern and did remind people that although the markets have come a long way, the real economy is still in a delicate situation.
- Merger and Acquisitions continued to dominate headlines. During November some of the bigger deals announced were British Airways and Iberia, Stanley Works and Black & Decker, Hewlett-Packard and 3Com, and Berkshire Hathaway bidding for the remaining stake of Burlington Northern Santa Fe. This shows that companies are keen to seek growth and put cash to work through inorganic means if the opportunities arise.
- Markets continued their upward rally in December, reaching yearly highs during the month. US Dollar (USD) strength and sovereign risks were the main themes. The much stronger-than-expected US employment report at the beginning of the month led to a big shift in USD sentiment as it prompted a reconsideration of US Fed (Board of Governors of the Federal Reserve System) policy. However, while the December Federal Open Market Committee (FOMC) statement did sound more upbeat and gave its clearest commitment yet to wind back excess liquidity in the first quarter of 2010 in terms of its Quantitative Easing policy, it maintained its commitment to keep monetary policy accommodative for the foreseeable future.
- Abu Dhabi's decision to bail out Dubai with 10bn USD helped reduce debt concerns and boosted banking stocks. Data releases during the month were generally favourable for the markets. China reported better-than-expected industrial production data and US production rose 0.8% in November, considerably more than the market had expected. Anticipation by the market of a relatively strong January also aided risk assets into the year-end and markets ended 2009 positively.
- The extreme style and sector rotations that the markets had experienced in the early stages of the rally that started in March had subsided by the fourth quarter and the market environment was more favourable to investment fundamentals.

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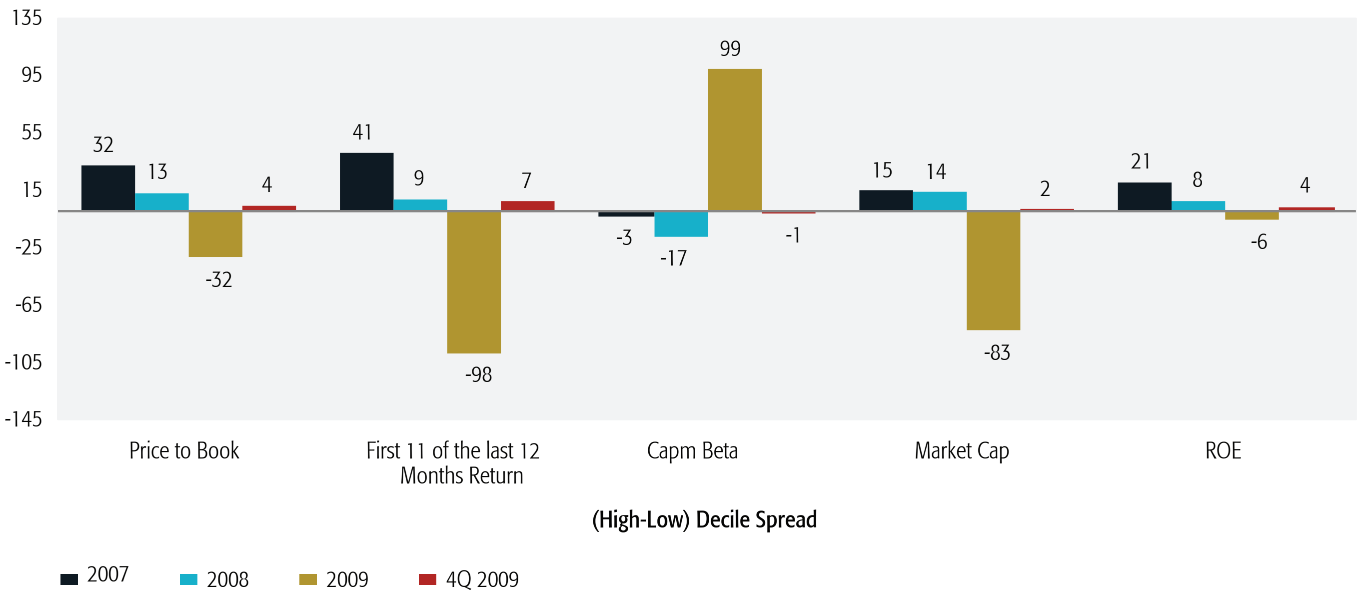
Russell 1000: Factor Performance



Source: Citi Investment Research, January 2010

- Overall, growth styled stocks performed more strongly over the fourth quarter.

MSCI World Growth relative to MSCI World vs MSCI World Value relative to MSCI World

Source: Thomson Datastream, 2009.