UK Market Review

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4th Quarter, 2009

- The FTSE All Share returned 5.5% during the fourth quarter, resulting in a full year total return of 30.1%, one of the best years on record. The index level has now fully recovered from all the losses that followed the near collapse of the financial system in September 2008. UK 10 year Gilt yields moved up over 40 basis points during the quarter, ending the year at just over 4.1%. This move was driven primarily by a rise in the market's long term inflation expectations. Commodities were strong once again in the fourth quarter, with oil moving up from $65.7 to $77.4. Sterling was more or less unchanged against both the Euro and the Dollar.
- The main driver of equity market performance was, once again, supportive economic news flow. The US economy grew 2.2% over the three months to end of the 3rd quarter, suggesting that recovery is now well under way. The UK economy was still in recession in Q3, although there is a reasonable chance that it will start to show growth again in Q4 or Q1 2010. Many companies both in the UK and abroad continued to show surprisingly good financial results, mostly due to aggressive cost cutting but in some cases due to better than expected revenues as well. The extremely loose monetary environment also remains favourable for equity market performance. Near zero interest rates combined with quantitative easing has led to a wave of excess liquidity. As confidence and sentiment continues to improve, some of this money has found its way into risk assets including equities.
- This generally favourable trend was, however, marred by the issues in Dubai. In late November, the heavily indebted Dubai World announced that it was intending to request a standstill on its debt payments until mid 2010. Equity markets were unsettled by this due to the high levels of exposure to Dubai within both the banking and construction sectors. In the event, Abu Dhabi agreed to bail out Dubai World with a last minute $10bn loan, which effectively removed the problem. Nevertheless, the episode was a reminder that over-indebtedness remains a problem for the global economy.
- Within the equity market, it has been a remarkable year with some truly extreme movements. Many of the major underperformers in 2008 were the stellar performers in 2009. For example, in the FTSE 100 index, 9 out of the 10 top performers in 2009 were mining companies. The fourth quarter, however, saw a broadening out of the market, with the FTSE 100 outperforming the mid cap index for the first time since the fourth quarter of 2008. Defensive growth sectors such as beverages and personal goods posted strong returns, which is encouraging as we see excellent relative value in these sectors. However, mining was once again the top performing sector, reflecting the continued strong economic data coming out of Asia.

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