

End 2nd Quarter 2010

It was only to be expected that equity markets would pause, after the headlong rise from the low point last Spring. Over the quarter, the FTSE 100 index fell 12.5%, and nearer 15% from the peak in mid April. This year, to the end of June, it is down just over 7%.

That the market peaked at much the same time as the BP well blew up is pure coincidence, but maybe a quarter of the subsequent fall is accounted for by this one stock alone. It has also had a depressing effect on the whole energy sector.

American companies that have announced Q2 results have produced numbers above consensus earnings estimates, but not by very much. So, they have ceased to surprise on the upside. Estimates for Q3 are being downgraded which is the first time this has happened since the market low.

Analysts seem to be behind the curve in Europe, but expect the same trend to emerge there. Perhaps it is because they have other things to worry about.

Most economies, with the exception of America, are now in full blown austerity mode, so the question is whether this will produce the much vaunted double dip. Our guess is that the authorities will do everything to avoid it.

Outlook

The financial system remains very fragile, particularly in Europe, and this has unnerved investors. Equity markets would appear to offer value at these levels, but it is not obvious where the catalyst is going to come from to drive them higher, over the next quarter.

CDO

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