

End 1st Quarter 2010

Global equity markets have continued to grind up in the first quarter, albeit that there have been frequent days where support disappeared. The general recovery in most economies is fragile, but there is emerging evidence that the base line of activity has passed its low.

Perhaps the most encouraging statistics have been coming out of America, although the growth appears to be a result of fiscal stimulus, and restocking, rather than increased sales. Importantly, President Obama managed to get his healthcare bill passed, despite numerous flaws, and has thus regained the political initiative. Inflation numbers continue to fall, so there should be no pressure on interest rates, and unemployment remains high.

In Europe, the story has been about Greece, and the problems of trying to get the deficit under control. Of course, this is not really about Greece, where the problems are tiny compared to other European countries, but more about the political, and economic, control of the eurozone going forward.

Not surprisingly, the economy is the main debating point in the forthcoming UK election, although none of the parties, so far, seem able to get their message across in terms that the electorate understand. Corporate results continue to deliver on the upside, and the weakness of the currency has helped. One of the side effects of this is that UK listed companies are becoming increasingly attractive to overseas buyers, witness the bids for Cadburys and Arriva. Expect this trend to continue.

Outlook.

The gradual withdrawal of stimulus programmes will leave economies to battle on their own, but it is very clear that a policy of both higher interest rates and taxes would kill off any hope of recovery.

Going forward, the principal fear is that of Sovereign credibility, and how patient bond investors are prepared to be. In many European countries, this is going to be a close run thing.

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