

# GUIDE TO THE MARKETS

## Market review April 2012

### Review of markets over April

#### MSCI World Index total return

##### April 2012

-0.5% in EUR

-2.7% in GBP

-1.1% in USD

-4.0% in JPY

-1.5% in Local

Source: MSCI, 30 April 2012.

Political developments in Europe, and weaker economic data globally, negatively impacted on investor confidence in April. Sentiment, however, was supported by stronger than expected first-quarter earnings announcements. The MSCI World Index ended the month down 1.5%, while emerging markets fared only slightly better, falling 0.5%. Bond markets were up marginally, the JPMorgan Global Bond Index rose by 0.7% (all in local currency terms).

First-quarter earnings from the US have, so far, beaten analyst expectations. Earnings for the S&P 500 were 7% above expectations at month end. Some of this surprise, however, may be attributable to analysts lowering expectations going into the quarter after the poor performance at the end of 2011. Technology, financials and materials have been the best performing sectors. The technology sector was buoyed by the huge outperformance of Apple, but the quality of the earnings of some of the larger banks in the financial sector has been questioned.

Fewer companies in Europe report quarterly earnings, but so far reports from the financial sector are mixed. Results from Barclays and Santander were ahead of expectations, while Deutsche Bank and Credit Suisse had disappointing results. The strength of the financial sector is key to the economic recovery in Europe and quelling the debt crisis. Investors will look towards the smaller financial companies in Europe and for signs of further weakness in their balance sheets. Two large corporate acquisitions were announced in Europe, however. Vodafone agreed to buy the telecoms group Cable & Wireless, while Nestle is set to buy Pfizer's baby food division.

The eurozone crisis entered a new phase in April after a political backlash in the core European countries took investors by surprise. The Dutch government collapsed after a coalition partner walked out of budget negotiations, while France is likely to elect Francois Hollande as its new president, who will seek to renegotiate Europe's Fiscal Pact. A shift in policy is likely as the focus moved to growth over austerity, and the ECB president Mario Draghi lent his support to the idea of a growth pact. There is little detail of what a growth pact may contain, but a more flexible approach to deficit reduction is a likely possibility.

In the meantime, peripheral economies remain in turmoil and Spain is likely to be next in line for a bailout. Standard & Poor's (S&P) downgraded Spain's credit rating and the Spanish economy contracted in the first quarter of the year. Without economic growth, the increased austerity measures are making it difficult for Spain to tackle its budget deficit. Meanwhile, the banking sector is becoming more unstable as the number of bad loans from a deflating property bubble stack up. Estimates of a potential bank bailout range from EUR 50 – 200 billion and that may be outside the current capabilities of the European Financial Stability Facility. Many are looking to the ECB to reinstate its Securities Markets Programme to buy up Spanish debt and lower the cost of borrowing. The yield on ten-year Spanish debt broke through the 6% level, considered the threshold where government borrowing becomes unsustainable.

UK and US GDP growth for the first quarter were both below consensus estimates. The UK economy contracted by 0.2% quarter-on-quarter (q/q) meeting the technical definition of a recession of two quarters of negative growth. The initial estimate of GDP is based on a limited amount of data, however, and other economic data

\*'Professional Investor' means the definition ascribed to it within the European Union Directive 2004/39/EU on Markets in Financial Instruments (MiFID).

released were supportive of positive growth suggesting that the initial estimate may be revised up in the future. The Purchasing Managers' Index (PMI) for manufacturing rose to 51.9 in March and has been above 50 for the first three months of the year indicating a consistent expansion in this sector. Retail sales growth and industrial production figures were also strong in April, and the unemployment rate in the UK fell for the first time in more than a year to 8.3% in February.

In the US, the economy expanded by 2.2% q/q on an annualised basis in the first three months of 2012. This was below expectations, but the detail within the GDP release was more encouraging. Consumer demand contributed two percentage points to the headline number and the underlying momentum of the economy looks positive.

Other economic data from the US was mixed. The unemployment rate fell slightly to 8.2%, but the number of jobs added in April was well below consensus forecasts at 120,000. Consumer confidence, however, continues to pick up and the University of Michigan consumer sentiment index is at its highest in over a year. The concerns on faltering US economic growth had the Federal Reserve signalling that a third round of quantitative easing is possible.

#### Total returns from markets in April (%)

Equities (MSCI)	Sterling	US dollar	Yen	Euro	Local
World	-2.7	-1.1	-4.0	-0.5	-1.5
US	-2.2	-0.6	-3.6	0.0	-0.6
Europe ex UK	-5.5	-3.9	-6.8	-3.3	-3.3
UK	-0.3	1.3	-1.7	1.9	-0.3
Japan	-4.7	-3.2	-6.1	-2.6	-6.1
Pacific ex Japan	-0.1	1.5	-1.5	2.2	1.0
Latin America	-5.3	-3.7	-6.6	-3.1	-1.2
Emerging Markets	-2.8	-1.2	-4.1	-0.6	-0.5

#### Bonds

World	0.0	1.6	-1.4	2.2	0.7
US	-0.1	1.5	-1.5	2.2	1.5
Japan	2.0	3.6	0.6	4.3	0.6
UK	0.4	2.0	-1.0	2.7	0.4
EMU Aggregates	-2.3	-0.7	-3.7	-0.1	-0.1

#### Currencies

Sterling	na	1.6	-1.4	2.3	na
US dollar	-1.6	na	-3.0	0.6	na
Yen	1.4	3.1	na	3.7	na
Euro	-2.2	-0.6	-3.6	na	na

Source: JPMorgan GBI indices, MSCI, FactSet, J.P. Morgan Asset Management.

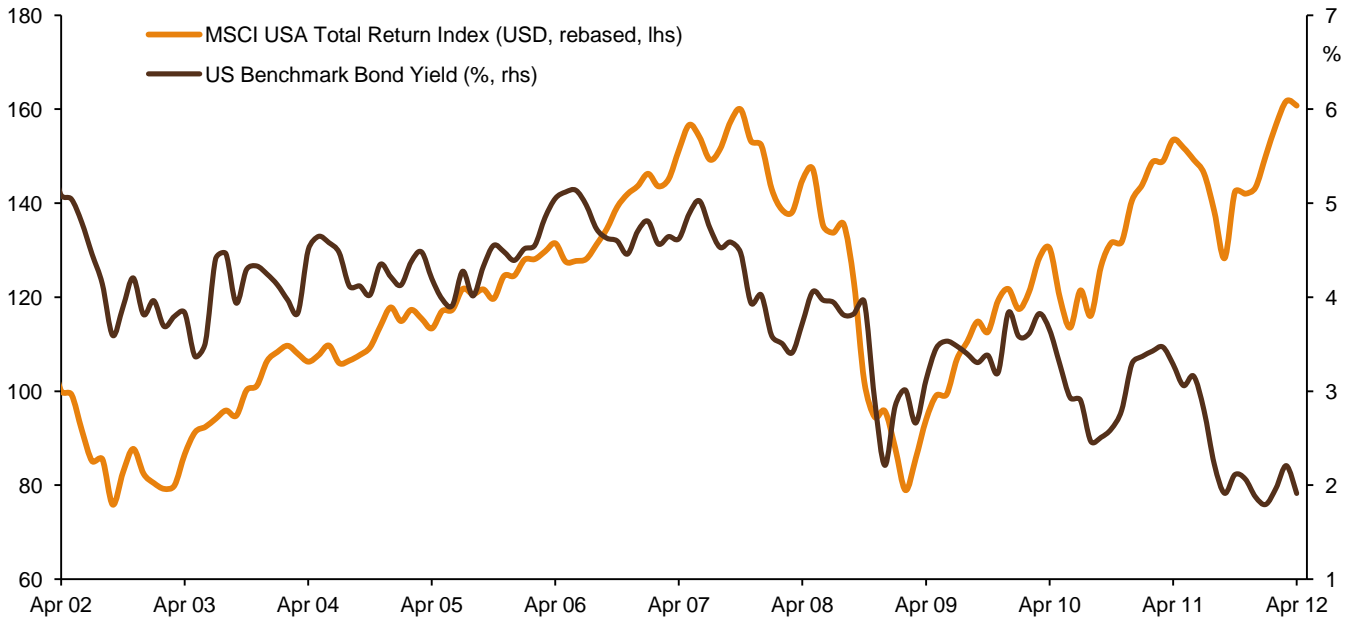
The soft landing scenario for the Chinese economy is becoming more of a reality. The Chinese economy grew at an annual rate of 8.1% in the first quarter of the year, below consensus estimates, and the slowest pace in over three years. Other economic data and likely action from the central bank mean that the pace of economic growth should begin to pick up. Flash PMI for manufacturing for April rose to 49.1 from 48.3, although, still below 50 signalling contracting activity. The MSCI China Index was up 3.5% over the month in local currency terms.

Policy loosening continues in other BRIC (Brazil, Russia, India, China) nations. The Brazilian central bank slashed the target SELIC rate by 75 basis points (bps) to 9.00%. Meanwhile, the Reserve Bank of India surprised markets by cutting interest rates by a greater than expected 50bps to 8.00%. However, it signalled that further cuts were unlikely given persistently high inflation, which is problematic for a country facing slowing growth. S&P downgraded its outlook for India during April citing weak drivers of growth and the need to control a widening fiscal deficit.

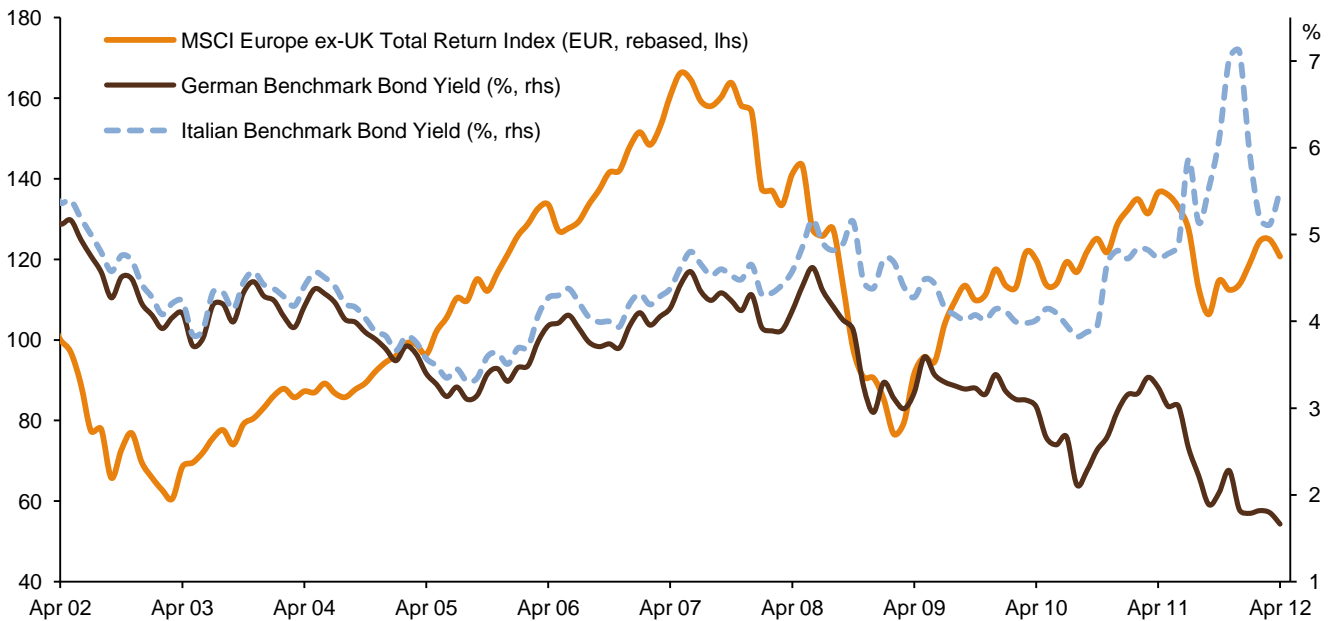
The Bank of Japan extended its asset purchasing programme as widely expected by a net JPY 5 trillion. The yen initially weakened on the news but has since strengthened against the dollar.

## Index and yield charts

## US equities and bonds

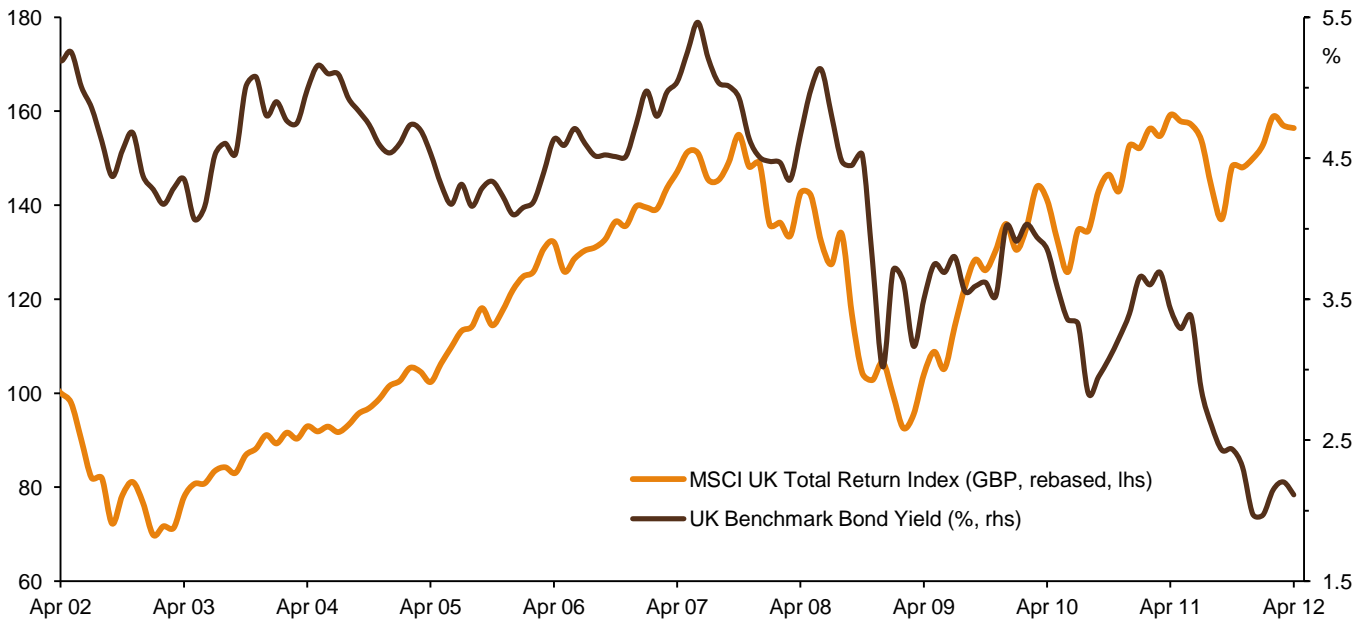


## European equities and bonds

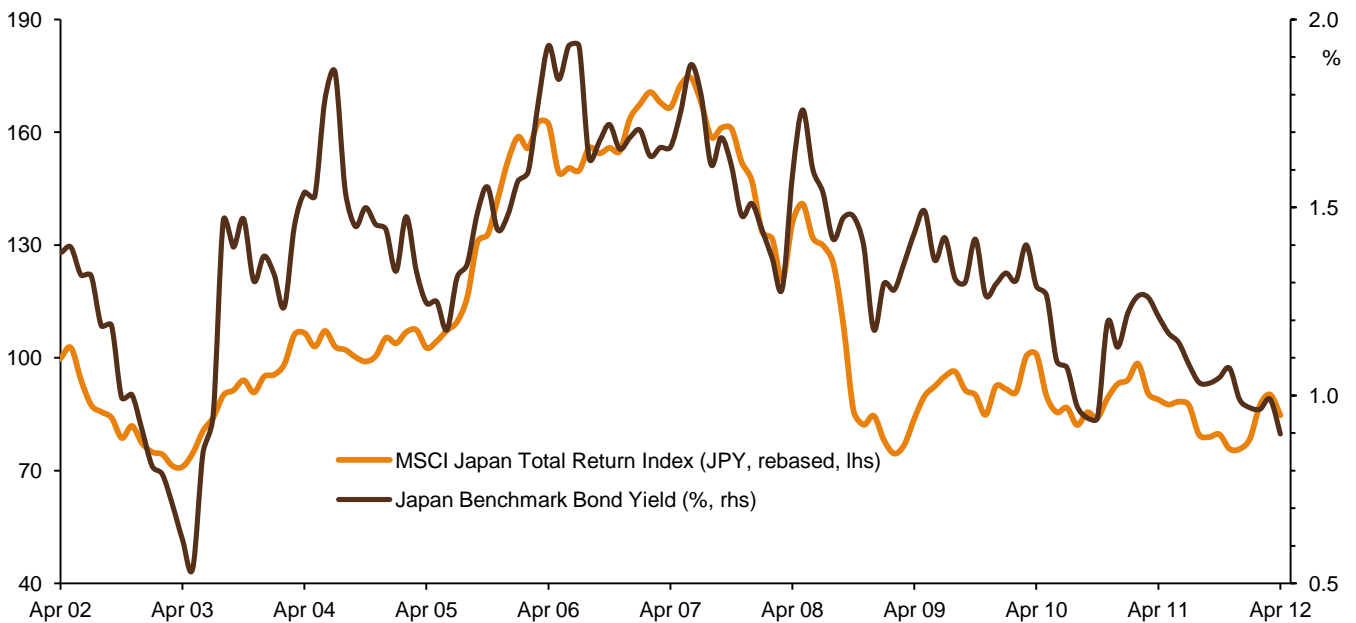


Source: MSCI, Bloomberg, 30 April 2012.

## UK equities and bonds

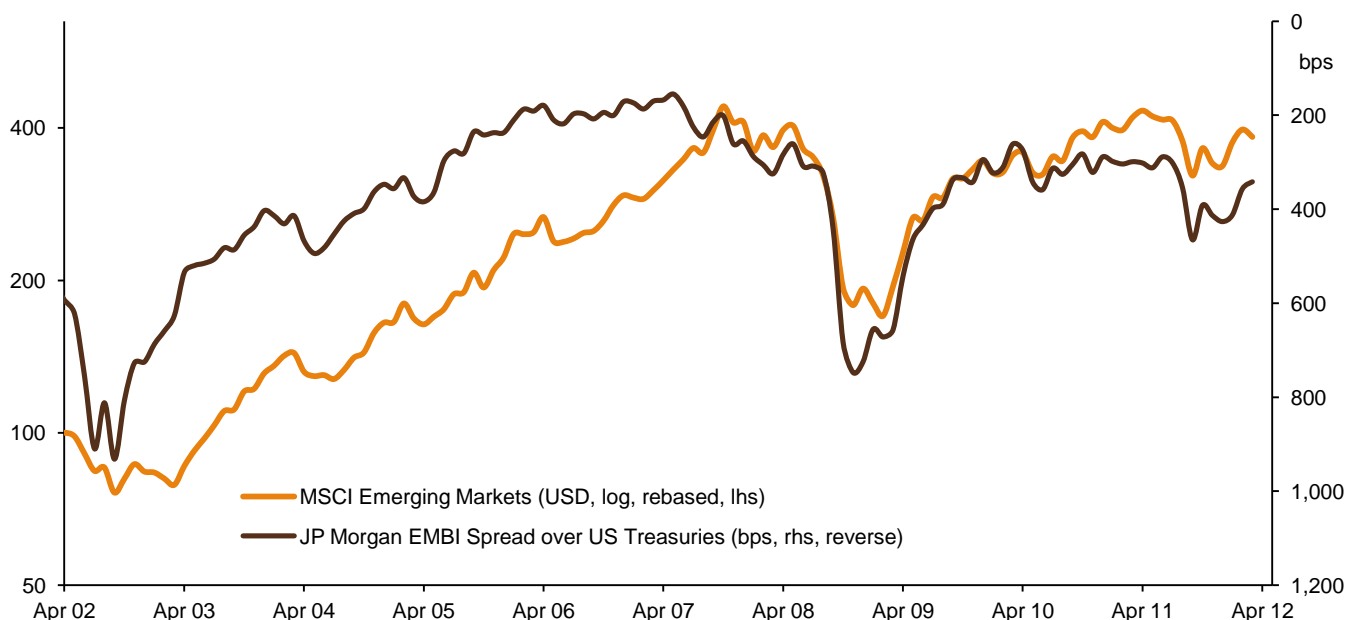


## Japanese equities and bonds



Source: MSCI, Bloomberg, 30 April 2012.

## Emerging markets equities and bonds



Source: MSCI, Bloomberg, 30 April 2012.

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