



Global Market Update – September 2009

Global equities ended August in positive territory, although trading was relatively thin as many investors took their summer holidays. Many stockmarkets experienced a shift towards stocks that are sensitive to the economic cycle amid signs that some major economies are emerging from recession.

The Organisation for Economic Cooperation and Development said that, on an aggregated basis, its members' economies stopped contracting during the second quarter of 2009. Germany's economy expanded by 0.3% between April and June but the UK's economy shrank by 0.7%.

Japan's economy grew by 3.7% on an annualised basis, boosted by extensive government stimulus measures; nevertheless, Japan's overall economic position remains troublesome. Deflation appears to be deepening, while unemployment climbed to a record level of 5.7% during July, outstripping the previous record of 5.5% set in April 2003. Nevertheless, Japanese investors shrugged off disappointing economic data towards the end of the month, heartened by the prospect of a new political administration.

Elsewhere in the region, China's premier, Wen Jiabao warned that growth might be hampered by excess industrial capacity, stoking concerns the country's economic growth might be less impressive than suggested by current forecasts. On a brighter note, Hong Kong emerged from recession amid signs that trade conditions are picking up.

In the UK, smaller companies and cyclical stocks were in favour during August as investors became less risk-averse. During the month, the FTSE 100 index reached its highest closing level since early October 2008. The banking sector continued to hog much of the limelight as several major players announced earnings results while controversy over the industry's regulation continues.

Meanwhile, in the US, the S&P 500 reached its highest level since October 2008, although this rise led some commentators to voice concerns that valuations are starting to appear expensive. According to Bloomberg, approximately three-quarters of S&P 500 companies that released second-quarter earnings announcements since 17 June have beaten consensus expectations.

Europe saw signs of burgeoning confidence during the month as a survey indicated business and consumer sentiment had reached their highest levels since October 2008. Germany and France announced a surprise return to economic growth during the second quarter, partly supported by a rise in demand for exports. Nevertheless, high levels of unemployment remain likely to curb the rate of recovery by holding back consumer spending, and the European Commission expects unemployment in the eurozone to climb as high as 11.5% during 2010.