29 July 2010

GLOBAL MARKET UPDATE

INVESTORS TAKE PROFITS ON ECONOMIC WORRIES

European shares ended lower on Wednesday as an unexpected drop in US durable goods orders for a second consecutive month in June rekindled economic concerns and prompted investors to take some profit. Shares in industrials, food and retail companies, such as Siemens, Nestle and Carrefour, which had been performing strongly lately, were among the key decliners. Banks ended the day mixed.

US stocks also fell. A downbeat assessment of the economy from the Federal Reserve's (Fed) Beige Book, which gives a summary of national economic conditions, dampened sentiment further. Homebuilders fell sharply a day after Meritage Homes reported a drop in sales following expiration of a federal homebuyer tax credit. Weak results from Boeing also disappointed investors.

Several Asian indices were down this morning. Notably, shares in companies exporting to the US declined.

Looking Ahead

The Fed's cautious tone in its latest Beige Book will increase the focus on the advance estimate of US GDP in the second quarter, to be published tomorrow. Consensus forecasts are that annualised growth over the previous quarter will slow to 2.5%, from 2.7% in the first three months of the year and 5.6% in the final quarter of 2009. Today, investors will assess initial jobless claims for last week. Key data releases in Europe will be the German labour market figures for July and French producer prices for June.

On the earnings front, leading energy names, such as Exxon Mobil and Chevron, are due to report quarterly numbers today and tomorrow, respectively. UK firms Rolls-Royce, AstraZeneca, BAE Systems. British Sky Broadcasting and BT Group will announce results today, along with German groups Merck, Volkswagen, Siemens and Bayer. French companies Sanofi-Aventis, Cap Gemini and France Telecom will also give updates.

Equity Markets

European equities fell on Wednesday, halting the rally of the last few sessions. Banks ended mixed following an advance on Tuesday; Societe Generale rose while Dexia slipped. French car manufacturer PSA Peugeot Citroen declined after the company's warning of a tougher economic context in the second half of 2010 eclipsed strong first-half results. Steel giant ArcelorMittal ended lower as it said that earnings in the coming months will be hit by a slowdown in demand from China. On a positive note, shares in Portugal Telecom climbed as it agreed to sell its stake in Brazil's Vivo Participacoes to Spain's Telefonica for €7.5 billion.

US equities declined on Wednesday as economic data disappointed and earnings forecasts at bellwether firms failed to meet expectations. Investor sentiment was hurt by an unexpected decline in durable goods orders, which dropped 1% in June. Meanwhile, the Fed's Beige Book, a wider survey of business, revealed that although the US economy was growing, there were signs of a slowdown in some regions over the past two months. On the corporate front, airplane manufacturer Boeing and steel firm ArcelorMittal reported better-than-anticipated results but issued cautious outlooks for the rest of the year. However, some good news emanated from telecommunications firm Sprint Nextel and commercial real estate broker CB Richard Ellis. The former reported fewer losses of long-term customers, while the latter revealed its strongest revenue growth since 2007.

After a lacklustre opening, **Asian** stocks traded in narrow range this morning. Samsung Electronics, which gets a fifth of its revenue from America, slipped in Seoul. Japanese firm Panasonic slumped due to newspaper reports that the company may spend more than 900 billion yen ($10.3 billion) on buying out two units. Meanwhile, shipping lines, including Nippon Yusen KK, jumped after almost doubling its forecast for profit. Chinese stocks rose as the central bank said it will keep a “moderately loose” monetary policy and steel producers rallied due to improving earnings prospects. Shares in Anhui Conch Cement led gains for cement firms after a major broker raised its recommendation on the industry. Baoshan Iron & Steel, the listed unit of China's second- biggest steel manufacturer, edged higher.

as at 28/07/10

Source: Datastream, Price Index Returns in local currency. Past performance is not a reliable indicator of future results

	Market	Close as at 28/07/10	% change 28/07/10	Net change	% change 12 months	% change 5 years	% off peak during past 12 months*
US	US: Dow Jones	10497.9	-0.38	-39.81	15.40	-1.94	-6.31
	US: S&P 500	1106.1	-0.69	-7.71	12.91	-11.06	-9.13
	US: NASDAQ	2264.6	-1.04	-23.69	14.63	3.01	-10.50
Europe	MSCI Europe	1097.9	-0.45	-5.01	13.60	-7.82	-7.64
	UK: FTSE All Share	2744.4	-0.85	-23.65	18.91	4.03	-8.19
	UK: FTSE 100	5319.7	-0.86	-45.99	17.46	0.94	-8.68
	Germany: DAX	6178.9	-0.46	-28.37	19.41	26.29	-2.42
	France: CAC 40	3670.4	0.11	3.96	10.19	-17.75	-9.72
	Netherlands: All Share	516.3	-0.97	-5.05	20.16	-12.02	-7.82
	Italy: S&P MIB	21082.1	-0.36	-76.02	5.35	-37.58	-13.69
	Switzerland: SMI	6277.5	0.04	2.30	8.93	-5.06	-9.90
	Spain: IBEX 35	10643.9	-0.01	-1.10	-0.19	5.09	-12.92
	Sweden: OMX	1050.8	-0.80	-8.45	23.26	21.65	-1.60
Asia	Japan: Nikkei	9753.3	2.70	256.42	-3.31	-17.75	-13.99
	MSCI Asia Pacific ex Japan	418.6	0.35	1.47	9.23	37.38	-4.31
	Hong Kong: Hang Seng	21091.2	0.56	117.79	2.26	42.38	-8.08
	Australia: S&P/ASX 200	4529.9	0.72	32.50	8.64	3.71	-9.44
	China: Shanghai Shenzhen 300	2863.7	2.43	68.00	-23.75	221.45	-24.38

*This reflects the % amount that each market has fallen since its highest point in the last 12 months.

Fixed Income Markets

European government bonds rose on Wednesday as a report showed that eurozone banks tightened lending in the last quarter and equities declined, stoking demand for the safety of fixed income assets. **Portuguese** bonds also gained after the country sold €1.3 billion ($1.63 billion) of 2014 and 2023 securities yesterday, more than indicated before the auction. **UK** Gilts advanced amid the highest yields in more than two months, which lured investors. Expectations increased that the economic recovery may slow down, strengthening the case for the Bank of England to keep interest rates unchanged. **US** Treasuries gained following a Fed business survey that showed that US economic growth slowed in some areas over the past two months. **Japanese** bonds opened higher this morning, spurred by a decline in the equities.

as at 28/07/10 Source: Bloomberg, Merrill Lynch.

	Market	Close (%)	Change (percentage points)		
			One Day	12 months	5 years
10-year Govt Bond Yields	US	2.99	-0.06	-0.70	-1.20
	UK	3.49	-0.03	-0.45	-0.82
	Eurozone	2.75	-0.02	-0.68	-0.48
	Japan	1.10	0.03	-0.30	-0.21
Credit spreads (BBB)	**Market**	**Close (basis points)**	**Change (basis points)**		
			One Day	**12 months**	**5 years**
	US	240	-1	-147	119
	UK	317	-1	-184	197
	Eurozone	266	-3	-86	188
	Japan	72	0	-198	36

The Longer-Term Perspective

Markets historically fall from time to time in the course of their longer-term upward progress. Investors who are willing to accept periods of market volatility and stay invested for the long term are often well positioned to grow their wealth as markets subsequently recover. Fidelity views the market reaction to them as a normal part of the investment cycle that, in itself, creates attractive opportunities for long-term investors.

As the table below demonstrates, while we may experience some short-term weakness in markets, the longer-term performance remains encouraging.

Equity markets as at 28/07/10 Source: Datastream, Price Index Returns in local currency

	Market	% change 12 mths to 28/07/2010	% change 12 mths to 28/07/2009	% change 12 mths to 28/07/2008	% change 12 mths to 28/07/2007	% change 12 mths to 28/07/2006
US	US: Dow Jones	15.40	-18.28	-16.09	18.23	4.80
	US: S&P 500	12.91	-20.64	-15.39	14.11	2.80
	US: NASDAQ	14.63	-12.75	-11.63	22.35	-4.74
EU	MSCI Europe	13.60	-19.88	-21.07	13.21	13.34
	UK: FTSE All Share	18.91	-14.52	-15.91	6.16	14.64
	UK: FTSE 100	17.46	-14.75	-14.52	4.02	13.37
	Germany: DAX	19.41	-18.52	-14.77	30.61	16.62
	France: CAC 40	10.19	-22.97	-23.38	12.24	12.69
	Netherlands: All Share	20.16	-29.51	-24.74	18.44	16.53
	Italy: S&P MIB	5.35	-29.46	-28.33	7.79	8.72
	Switzerland: SMI	8.93	-17.31	-19.95	9.55	20.18
	Spain: IBEX 35	-0.19	-7.15	-21.27	22.71	17.36
	Sweden: OMX	23.26	0.26	-30.04	27.27	10.56
Asia	Japan: Nikkei	-3.31	-24.46	-22.74	12.65	29.38
	MSCI Asia Pacific ex Japan	9.23	-5.10	-14.21	36.74	12.99
	Hong Kong: Hang Seng	2.26	-9.09	0.52	33.12	14.46
	Australia: S&P/ASX 200	8.64	-15.29	-19.08	22.68	13.52
	China: Shanghai Shenzhen 300	-23.75	26.85	-31.26	221.10	50.57

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