5 January 2009

GLOBAL MARKET UPDATE

2009 BEGINS ON A POSITIVE NOTE FOR EQUITIES

Global markets welcomed 2009 on an upbeat note. Equities advanced on Friday, the first trading day of 2009 for most major markets, as investors endeavoured to put the wreckage of 2008 behind them and focussed on hopes for better times ahead. Grim news on manufacturing activity on both sides of the Atlantic did little to dampen investor sentiment.

European shares rose sharply bolstered by gains in the mining sector and a solid start to the year by most banking stocks. Energy shares contributed the most in line with the rise in oil prices as Russia's move to halt gas supplies to Ukraine stoked worries about energy supplies, already fuelled by political tensions in the Middle East. In the US, General Motors (GM) led the rally after it received the first $4 billion in aid from the US Treasury. The S&P closed at its highest level since November, even though data from the Institute of Supply Management showed US manufacturing contracted in December.

Asian indices were trading higher this morning, with Japanese stocks in the lead during a half-day session, as exporters rallied on the back of gains on Wall Street and hopes for strong action by the incoming US government.

Looking Ahead

Investors begin the first full week of 2009 trading today with one question in mind: Is the worst over? They will watch for clues on how president-elect Barack Obama will try to shake the US economy out of its worst slump in decades. Obama is due to meet leaders in Congress today to discuss his stimulus plan. Some Republicans are worried that their Democratic rivals could expand the plan to as much as $1 trillion.

The year has already started with grim signs of recession, including dismal manufacturing data. This week's big data report will come on Friday, when the US issues its latest monthly jobs data. The jobs report is crucial because it reflects everything from business activity to likely consumer spending patterns. Other key data will be total vehicle sales and a retail sales report, both for December. According to Reuters estimates, car sales will fall to 10 million on an annualised basis, down from 10.3 million in November.

In Europe, weak manufacturing and housing data heightened expectations that the European Central Bank and the Bank of England would lower borrowing costs again at their next policy meetings.

Equity Markets

European indices closed higher on Friday, the first trading day of the year, with commodity shares rising on higher energy and metal prices and banking stocks gaining. Shares in Total and StatoilHydro rose in line with oil prices as Russia's move to halt gas supplies to Ukraine stoked worries about energy supplies, already fuelled by political tensions in the Middle East. Last year's worst performing sector provided eight of the top 10 biggest gainers on the FTSE 100. Rio Tinto advanced on account of speculation it could reduce pressure on its balance sheet with a $2 billion dividend reinvestment scheme. The macroeconomic picture, however, remained grim as fresh data pointed to another difficult year. Eurozone manufacturing activity sank to a record low in December.

In the **US,** stocks climbed even though data from the Institute of Supply Management showed manufacturing shrank in December at the fastest pace since 1980. The energy sector was among the best performing segment as US crude climbed above $46 a barrel. GM gained after it received the first $4 billion in aid from US Treasury designed to help the company avoid collapse. Citigroup also advanced as its Chief Executive Officer and other executives forgo their 2008 bonuses. Large-cap technology stocks including Apple and Microsoft, which are seen as better positioned to withstand a weak economy due to large cash reserves, helped lift the Nasdaq. Volume was light after the New Year's holiday and ahead of the weekend, which analysts cautioned could exacerbate swings in the market.

Most **Asian** stocks gained this morning due to optimism about the potential economic stimulus effects of the US president-elect plans for more than $300 billion of tax cuts, while surging commodities boosted resource companies. Resource-linked firms including trading houses, which make much of their profit dealing in commodities, rose sharply as tension in the Middle East supported the price of crude. Japanese shares jumped during a half-day trading session, led by exporters such as Toyota Motor and Canon in the wake of a weakened yen. Meanwhile, Asian governments are preparing more measures to boost growth. China may announce a second round of measures to revive growth as early as this month. The Bank of Japan may consider steps to counter the rising yen as the economy faces severe conditions this year. Earlier, on Friday, India cut interest rates by 1.0% to 5.5%, its fourth cut since October and unveiled another stimulus package.

as at 02/01/09 Source: Datastream, Price Index Returns in local currency. Past performance is not a reliable indicator of future

	Market	Close as at 02/01/2009	% change 02/01/2009	Net change	% change 12 months	% change 5 years	% off peak during past 12 months*
US	US: Dow Jones	9034.7	2.94	258.30	-30.74	-13.21	-30.81
US	US: S&P 500	931.8	3.16	28.55	-35.61	-15.94	-35.61
US	US: NASDAQ	1632.2	3.50	55.18	-37.45	-18.66	-37.45
Europe	MSCI Europe	938.9	3.00	27.31	-38.62	-3.94	-38.62
Europe	UK: FTSE All Share	2275.3	2.99	66.04	-30.40	2.35	-30.87
Europe	UK: FTSE 100	4561.8	2.88	127.62	-28.91	1.14	-29.60
Europe	Germany: DAX	4973.1	3.39	162.87	-37.44	23.75	-37.44
Europe	France: CAC 40	3349.7	4.09	131.72	-39.65	-6.87	-39.65
Europe	Netherlands: All Share	399.5	4.96	18.87	-48.59	-18.77	-48.59
Europe	Italy: S&P MIB	19953.0	2.53	493.00	-47.54	-27.14	-47.58
Europe	Switzerland: SMI	5534.5	0.00	0.00	-34.77	0.85	-34.77
Europe	Spain: IBEX 35	9486.3	3.16	290.50	-36.77	20.40	-36.77
Europe	Sweden: OMX	693.8	4.75	31.45	-34.45	7.65	-34.45
Asia	Japan: Nikkei	8859.6	0.00	0.00	-42.12	-17.02	-42.12
Asia	MSCI Asia Pacific ex Japan	282.8	1.91	5.31	-45.15	14.47	-45.15
Asia	Hong Kong: Hang Seng	15042.8	4.55	655.33	-45.42	17.51	-45.53
Asia	Australia: S&P/ASX 200	3713.8	-0.23	-8.50	-41.54	12.52	-41.54
Asia	China: Shanghai Shenzhen 300	1817.7	0.00	0.00	-66.25	NA	-68.29

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

Fixed Income Markets

European government bonds declined on the first trading day of the year as gains by stocks and yields near record lows deterred demand for the relative safety of fixed income assets. Bonds continued to stay lower even after a report showed that the euro-region's manufacturing industry contracted in December, at a faster pace than initially estimated. Meanwhile, the spread between two-year notes and 10-year European bonds rose, indicating that investors expected the economic slowdown to worsen and policy makers to further cut borrowing rates in the coming months. **US** Treasuries also fell as stock prices and other broad measures of risk-taking increased, leading investors to sell US securities. Treasuries had risen earlier following an industry report that showed manufacturing shrank at the fastest pace in almost three decades. Elsewhere, **Japanese** government bonds opened lower this morning amid speculation that gains in global stocks may reduce demand for debt.

as at 02/01/09					Source: Bloomberg, Merrill Lynch.
	Market	Close (%)	Change (percentage points)		
			One Day	12 months	5 years
10-year Govt Bond Yields	US	2.37	0.16	-1.53	-2.01
	UK	3.04	0.02	-1.41	-1.83
	Eurozone	2.96	0.01	-1.25	-1.37
	Japan	1.17	0.00	-0.34	-0.20
	Market	Close (basis points)	Change (basis points)		
			One Day	12 months	5 years
Credit spreads (BBB)	US	782	-2	535	653
	UK	760	0	543	641
	Eurozone	626	0	470	540
	Japan	241	1	190	199

The Longer-Term Perspective

Understandably, investors have become more concerned about risk due to the heightened volatility in share prices. However, history and more recent experience show that investors tempted to sell their investments to avoid further market falls risk missing out on significant market rises. As we have seen, the greatest rises in the stock market often come hard on the heels of the greatest falls.

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. Although events in the last few weeks have been highly unusual, 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.

It is also worth bearing in mind that stock markets typically recover before economies do, since investors look ahead to the next phase of economic and stock market growth. As the table below demonstrates, while we may currently be experiencing some short-term weakness in markets, the longer-term performance remains encouraging.

Equity markets as at 02/01/09 — Source: Datastream, Price Index Returns in local currency

	Market	% change 12 mths to 02/01/2009	% change 12 mths to 02/01/2008	% change 12 mths to 02/01/2007	% change 12 mths to 02/01/2006	% change 12 mths to 02/01/2005
US	US: Dow Jones	-30.74	4.66	16.29	-0.11	3.07
	US: S&P 500	-35.61	2.03	13.62	3.84	8.44
	US: NASDAQ	-37.45	8.05	9.52	2.47	7.25
EU	MSCI Europe	-38.62	1.15	16.97	21.43	8.92
	UK: FTSE All Share	-30.40	0.10	14.71	18.10	8.45
	UK: FTSE 100	-28.91	1.68	12.32	16.71	6.74
	Germany: DAX	-37.44	18.98	22.59	26.99	6.79
	France: CAC 40	-39.65	-1.20	18.15	23.32	7.20
	Netherlands: All Share	-48.59	2.50	16.85	25.25	5.33
	Italy: S&P MIB	-47.54	-9.48	16.84	15.99	13.22
	Switzerland: SMI	-34.77	-3.43	15.85	31.47	5.12
	Spain: IBEX 35	-36.77	4.44	33.17	18.22	15.80
	Sweden: OMX	-34.45	-9.08	20.84	28.84	16.03
Asia	Japan: Nikkei	-42.12	-11.13	6.92	40.24	7.61
	MSCI Asia Pacific ex Japan	-45.15	25.43	24.01	19.69	12.09
	Hong Kong: Hang Seng	-45.42	35.70	36.53	4.49	11.22
	Australia: S&P/ASX 200	-41.54	12.05	19.04	17.60	22.72
	China: Shanghai Shenzhen 300	-66.25	163.84	121.02	NA	NA