

# Market Commentary

April 2012

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## **UK (all returns are in £ unless otherwise stated)**

The UK market experienced a mixed month, with the FTSE All Share Index finishing down 0.3%, as reignited concerns over the Sovereign debt crisis, disappointing economic data from the US and news that China's growth had slowed lowered sentiment among UK investors. However overall in GBP terms, the UK finished ahead of European, US and Japanese markets. On the downside, the UK economy fell back into recession after a surprise 0.2% contraction in the first quarter. This came after a period in which much of the news has actually been better: the Halifax house price report was better than expected at +2.2% month on month; the manufacturing Purchasing Managers Index rose to a 10-month high; and we saw an unexpected rise in the PMI Services survey. However, the start of results season was encouraging with good figures from various sectors. Royal Dutch Shell reported an 11% rise in first-quarter profits driven by robust demand for energy and higher oil prices. Barclays reported a 22% rise in profits thanks to its investment banking division. Over the month, lower beta, growth stocks outperformed value stocks. The utilities sector finished the best-performer, while more risky sectors such as technology and financials fell out of favour among investors.

Data Source: Confluence

## **Europe (all returns are in € unless otherwise stated)**

European markets delivered a negative return in April, with the Russell Developed Europe ex UK Large Cap Index losing 2.9%. As sovereign risk became a concern again, Spanish equities suffered a double-digit fall, while Italy and Greece also suffered large drops. Concern grew about Spain's debt burden, as the country fell back into recession in Q1 and economists said spending cuts aimed at meeting strict EU deficit limits, together with a reeling bank sector, would delay any return to growth until late this year or beyond. As a result, investors took flight from riskier assets. Elsewhere, the economic environment in Europe is very mixed. Germany is still faring relatively well: the ZEW investor confidence survey unexpectedly rose to its highest level in almost two years, while the Ifo business climate index unexpectedly increased for a sixth month in a row. But generally the mood remained downbeat – as reflected by EU unemployment, which rose to 10.2%. The corporate sector mostly reinforced the gloom on the continent. Nokia warned on its profits again due to harsh competition in emerging markets. Alcatel-Lucent warned on the outlook for Europe and North America. And the Argentinean government nationalised Spanish oil company Repsol's stake in Argentina's YPF. On the plus side, luxury goods companies Prada, PPR and LVMH all reported strong growth.

Data Source: Confluence

## **US (all returns are in US\$ unless otherwise stated)**

The Russell 1000 Index gave up 0.6% in April. Despite a strong start to earnings season, macro news was somewhat disappointing. Investor sentiment was lowered with reignited concerns over the sovereign debt crisis in the eurozone and news that China's growth had slowed. Domestically, the first-quarter GDP report, which revealed growth of 2.2%, came out well below markets' expectations. In addition, weekly jobless claims have ticked higher in recent weeks, while several regional manufacturing surveys were weaker than estimated.

On the upside, with more than three quarters of companies reporting earnings ahead of analysts' expectations, the first quarter reporting season was shaping up to be better than the previous one. Key performers included Apple, whose quarterly profits were up 94%, Amazon, where earnings per share

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were four times what was expected, and Goldman Sachs, which reported strong headline earnings and raised its dividend. Corporate activity was also a feature this month. Most notably, Facebook made its largest acquisition by paying \$1bn for photography-based social network Instagram. Coty proposed a buyout offer for Avon Products valued at about \$10bn.

Data Source: Confluence

### **Japan (all returns are in ¥ unless otherwise stated)**

The Japanese equity market ended a run of four consecutive monthly gains in April, with the Topix closing the month 5.9% lower. A number of factors contributed to the loss, including renewed concerns over Europe's sovereign debt crisis – Standard & Poor's downgraded Spain's debt rating two notches (to BBB+) – and some softer US economic data. The market was also negatively impacted by a stronger yen, profit taking in the wake of recent strong gains and some poor earnings results that included a record loss by index heavyweight Sony. However, the loss was tempered somewhat late in the period by the Bank of Japan's decision to expand its asset-purchasing program and comments from US officials who confirmed that a third round of quantitative easing remained "very much on the table" should conditions in the world's biggest economy deteriorate. All sectors posted negative returns over the month, led by utilities, energy and financials. Utilities weakened in part because of increasing public opposition to nuclear power while energy and financials, like most cyclical stocks, eased as an element of caution returned to investment markets.

Data Source: Confluence

### **Asia-Pacific (all returns are in US\$ unless otherwise stated)**

The Russell Asia Pacific ex Japan Index (the index) rose a modest 0.2% in April, as expectations of further monetary easing in the region was largely offset by renewed European debt concerns and a series of softer US economic data. The Reserve Bank of India unexpectedly cut its benchmark interest rate for the first time since 2009 in response to moderating growth and easing inflation while Chinese officials look set to follow suit after the country's economy expanded by less than expected in the March quarter. Asian markets also benefited from comments by US Federal Reserve chairman, Dr. Ben Bernanke, who said a third round of quantitative easing remained "very much on the table" should the US economy require additional support. Most countries within the index posted positive returns in April, though the Philippines and Thailand were the standouts. The Philippines market rose on the back of stronger corporate earnings while Thailand continued to benefit from rebuilding efforts in the wake of recent flooding. By contrast, the Taiwanese market was among the worst performers for the month after many of the country's big technology names weakened throughout the period. Gains at the sector level were shared across cyclicals and defensives, with financials, consumer discretionary, consumer staples and telecommunication services all closing the month higher. Materials and industrials posted the biggest declines for the month.

Data Source: Confluence

### **Emerging Markets (all returns are in US\$ unless otherwise stated)**

The Russell Emerging Markets Index fell by 1.3% in US dollar terms in April. This was ahead of the developed European markets and Japan but behind the US, developed Asia and the UK. The best performing emerging markets were largely in emerging Asia with the Philippines, Thailand and China performing particularly strongly. China returned 2.4% in April. The country's first quarter economic growth cooled to 8.1% amid weak export growth and sluggish construction activity. Meanwhile, the inflation rate rose to 3.6%, up from February's 20-month low. The market viewed the figures as pointing to a gradual slowdown rather than a hard landing and the general sentiment was that this period signified the bottom of the cycle. Indeed, separate reports showed Chinese industrial production up 11.9% in March, while retail sales were also strong, up 15.2% year-on-year. The Indian market, in contrast, underperformed and delivered a loss of 4.8% for investors. The reports showed that the industrial production rose less than predicted in February, up 4.1% against expectations of a 6.7% rise. As a result, India unexpectedly cut interest rates by a greater-than-expected half a percentage point,

seeking to bolster growth with its first reduction since 2009. Initially, the country's currency (the rupee) and equities gained but the moves were short-lived and the rupee continued on its downward trajectory. Thailand, meanwhile, was one of the best performing markets, up 4.1%, as its solid economic recovery and risks in developed markets have attracted large capital inflows to the market. Brazil was one of the weakest markets in April, losing 5.8% and led the Latin American region to a monthly loss. This was largely down to concerns about global growth, led by weaker news from the US and Spain. As a result, the real lost around 4% of its value this month, exacerbating the loss for overseas investors. Eastern European markets were led lower as the sovereign debt crisis became a renewed concern. The Russian market declined 3.1%, tracking the fall in the oil price and also weaker prospects for economic growth.

Data Source: Confluence

### **Global (all returns are in US\$ unless otherwise stated)**

Global equity markets faced divergent forces in April as economic growth indicators nominally weakened, while corporate earnings surpassed consensus expectations. Macroeconomic effects ultimately played a more important role than micro effects, as the European debt crisis and manufacturing slowdowns weighed heavily on investors' minds. The Russell Global Developed Large Cap Index Global finished down -1.1% over the month. The European crisis continued, as exhibited by the collapse of the Netherlands' leading governmental coalition, a historically fiscally-conservative nation, due to faltering negotiations on meeting deficit targets. This follows similar events in the region as the Irish, Portuguese, Greek, Italian, and Spanish governments have all seen their ruling parties forced out. Spain's credit rating was downgraded by Standard & Poor's to BBB+ while the unemployment rates currently hover around 25%. Outside of the eurozone, the United Kingdom slipped into a recession in the first quarter, while in Japan, the BOJ continues its easing measures in an effort to weaken the yen and boost its exporters. The US economy was slowed by three consecutive increases in initial unemployment claims as well as a slowdown in manufacturing. Dispersion of performance among regions was relatively tight, with Asia/Pac ex-Japan leading while Continental Europe was the main laggard. From a sector perspective, defensive industries outperformed as consumer staples and health care were the two best-performing areas. In a reversal of first quarter results, financials and information technology were the two worst performing sectors.

Data Source: Confluence

### **Bonds (all returns are in US\$ unless otherwise stated)**

April saw a reversal in risk sentiment following the first quarter, as the positive effects from the ECB's LTRO stimulus faded and investors again became anxious, focusing on news flow and fundamentals. The Barclays Capital Global Aggregate gained 1.2% in April. US economic data releases were mixed (including a preliminary 1Q12 GDP of 2.2% coming in below estimates), bringing into question the magnitude and sustainability of future US growth. Meanwhile, the UK and Spain (which S&P downgraded by two notches to BBB+) slipped into recession. Europe received some positive news, including the IMF receiving over \$430 billion in pledges and Portugal's government approving a four-year budget plan. Strong demand in French and Spanish bond auctions was seen; however, Spain continues to suffer from concerns about bank solvency, causing their 10-year yield to rise over 40bps during the month. The global trend in central bank easing continued, including those in Brazil, Mexico and Australia. The Fed remained on hold at its April meeting; the consensus view was that its statement appeared more upbeat on growth and that it was backing away from further QE. The ECB also remained on hold at 1%, with Draghi resisting IMF and Fed calls to do more. The Bank of Japan expanded its QE programme by ¥5 trillion to ¥70 trillion and extended it 12 months to June 2013, sending the yen lower. In politics, unexpectedly the Dutch prime minister and his cabinet resigned, after his ruling coalition lost support due to disagreements over austerity budget measures. Though crisis was averted and a budget was passed, the country is now in the spotlight due to significant slippages in its fiscal consolidation plans.

Data Source: Confluence

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