



## What would the Greeks give for an Apple?

Please find attached our weekly market commentary, which highlights sector movements across UK equities and a range of markets, currencies and bonds.

- A cautious stance is adopted by investors as US economic data disappoints.
- The Federal Reserve committed to US interest rates remaining low until late 2014.
- Lower than expected UK & US GDP figures limited the gain of the FTSE 100 & S&P 500.
- Fitch followed S&P and downgraded its rating on European Sovereign bonds. Italy & Spain were cut by two notches.
- An Iranian oil embargo was put in place by the EU, coming into effect on 1<sup>st</sup> July.

With yet another EU summit scheduled for today we are reminded that issues in the Eurozone remain far from resolved. Whilst actions by the ECB have undoubtedly offered significant respite, manifested particularly in the lower bond yields of Italy and Spain they are essentially short term and buy time only. The other key ingredient is much more difficult and this must result in the forging of a lasting and sustainable currency union. The aim of today's meeting is to finalise the fiscal compact which will effectively oversee the budgets of individual member states supposedly backed up with strict sanctions for those who breach it.

Negotiations with private sector holders of Greek debt remain on-going and it is thought that agreement may be reached in the coming days. Having initially agreed to a 50% haircut in November, it is now likely that this figure will need to be in the region of 70%. Agreement is necessary for Greece to receive its second bailout of €130bn ahead of its €14.5bn bond payment on March 20<sup>th</sup>, in the absence of which a default becomes a very likely scenario. With the country mired in a long and deep recession, the question is whether this will be enough. Confidence has understandably been seriously damaged, and this has had a devastating effect on the corporate sector, which is faced with credit constraints, subdued demand and increasingly nervous overseas customers and suppliers. In turn this then creates a negative feedback loop, none of which the current actions attempt to counteract. Even with the write-downs it is highly debatable whether the Greeks will find themselves in a fiscal position that can be described as sustainable, particularly on the current path which saw the economy contract by 6% last year coupled with an unemployment rate of circa 18%.



The obsession with austerity needs desperately to be replaced with measures that embrace jobs and growth, the danger otherwise is that the Greek people finally lose patience and with elections looming the political situation has the potential to be quite uncertain. The danger posed by Greece in isolation is manageable; the risk is that any adverse developments in that country affect some of the larger troubled nations.

In stark contrast, results from Apple last week reinforced the belief in the health of the corporate sector. Apple now has some \$100bn in cash on its balance sheet, an amount larger than the GDP of Slovakia in 2011. In the US, cash holdings are at levels not seen for at least six decades and whilst clearly reassuring from an investor's point of view, what companies do with this cash will have very important implications. Clearly with so much uncertainty management teams have been fairly cautious but were they to unleash this cash and invest it then this would have a very positive effect on the economy.

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Kind regards

Andrew Morris  
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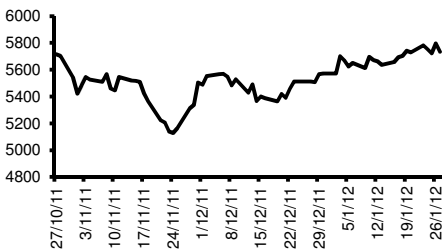
## RESEARCH

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FTSE 100 Source: DatastreamMarket Performance (% change) Source: Datastream

	1w	3m	12m
<b>UK</b>			
FTSE 100	0.1	0.3	-3.9
FTSE 250	0.3	1.1	-6.6
FTSE 350	0.1	0.5	-4.2
FTSE All Share	0.1	0.5	-4.4
FTSE SmallCap	1.4	1.6	-10.7
FTSE AIM	1.3	4.7	-19.3
<b>International</b>			
S&P 500	0.1	2.5	1.3
NIKKEI 225	0.9	-1.0	-15.6
DAX 30	1.7	2.8	-9.0
CAC 40	-0.1	-1.5	-18.3
MSCI Asia ex Japan (\$)	3.0	-0.3	-7.5

Currency (% change) Source: Datastream

	1w	3m	12m
£/\$	1.57	0.9	-2.4
€/\$	1.31	1.9	-6.4
£/€	1.19	-0.7	5.1
\$/Y	76.74	-0.5	1.2

Commodities (% change) Source: Datastream

	1w	3m	12m
Brent (\$)	111.3	1.7	-2.4
Gold (\$)	1731.5	4.5	0.1
Copper (\$)	8511.3	3.7	4.5

UK Economics (%) Source: Datastream

	Nov-11	3m	12m
Interest Rates (UK Base)	0.5	0.5	0.5
Inflation (CPI)	4.8	4.5	3.3

Bond Yields Source: Datastream

	Maturity	%GRY	%GRY 1w
Benchmark UK	2Y	0.44	0.42
	10Y	2.16	2.11
	20Y	2.86	2.82
Benchmark US	10Y	2.01	2.03
Benchmark EU	10Y	1.95	1.91
Benchmark JP	10Y	1.00	0.98

## Market Commentary

Week ended Friday 27<sup>th</sup> January

A jaded performance from global equities last week reflected the cautious stance adopted by investors after disappointing economic data from the US appeared to cast doubts over the sustainability of the growth experienced by the world's largest economy. Equities on both sides of the Atlantic were temporarily buoyed early in the week by a commitment from the Federal Reserve that US interest rates would stay low until late 2014 and Ben Bernanke not ruling out another round of quantitative easing. The FTSE 100 touched 5800, a level last seen in July last year with the S&P 500 technically entering a bull market after a 20% rise from the lows in October.

The dovish attitude embraced by the Federal Reserve brought selling pressure upon the dollar and was accompanied by a note of caution as the Fed also downgraded its US growth estimates. This was given credence by lower than expected US GDP growth, coming in below the 3% forecasts at 2.8% but still the fastest pace of growth in more than a year. UK GDP also disappointed as growth contracted by 0.2% in fourth quarter of 2011, 10 basis points more than expected. The economic announcements limited the gains made by the FTSE 100 and the S&P 500 with both indices ending the week 0.1% higher.

Following the downgrades of European Sovereign debt by S&P, Fitch also lowered its rating on 5 European nations, including Italy and Spain, whose ratings were both cut by two notches. The move had little effect on the bond yields, which conversely retreated as the European Central Bank continued to inject liquidity. Italy's 10-year bond yield dropped below 6% whilst the equivalent Spanish bonds fell beneath 5%. The easing did not extend to Portugal as concerns intensified that it may follow a similar route to Greece, resulting in the Portuguese 10-year yield extending beyond 15%, a euro-era high.

Commodities reflected the continued performance by miners and benefitted from the weakened dollar. Gold moved beyond \$1700 an ounce improving 4.5% through the week, whilst copper touched a four-month high before settling above \$8500 a tonne.

The rumoured Iranian oil embargo was officially put in place last Monday by the European Union and will take effect on the 1st July. This prompted a combative response from Iran who threatened to immediately ban the export of Iranian oil to Europe, a move that could compromise European oil companies with existing Iranian contracts. The potential disruption to global supply pushed Brent crude higher at \$111 a barrel.

FTSE All-Share: Best and Worst Performing Sectors Source: Datastream

Sectors: Top 5 Performers (1w)	1w	1m	3m	12m
FTSE ALL SHARE BASIC MATS £	2.4	15.5	4.3	-13.4
FTSE ALL SHARE CONSUMER GDS £	1.1	1.7	2.6	14.5
FTSE ALL SHARE TECHNOLOGY £	1.0	7.3	2.2	6.1
FTSE ALL SHARE FINANCIALS £	0.5	11.7	-0.7	-16.7
FTSE ALL SHARE UTILITIES £	-0.1	-0.9	-4.2	3.9

## Sectors: Bottom 5 Performers (1w)

FTSE ALL SHARE TELECOM £	-2.3	-1.0	-0.1	-2.3
FTSE ALL SHARE CONSUMER SVS £	-0.7	-0.1	-4.6	-10.0
FTSE ALL SHARE OIL & GAS £	-0.7	-0.3	-1.0	-1.5
FTSE ALL SHARE HEALTH CARE £	-0.6	-0.6	2.2	11.8
FTSE ALL SHARE INDUSTRIALS £	-0.5	6.9	4.2	-0.1

## RESEARCH

## Market Performance (% change)

Source: Datastream

	Price Close	Price -1w	Hist. Div. Yield (%)	% chg 1w	% chg 1m	% chg 3m	% chg 6m	% chg 12m	% chg YTD
FTSE 100	5733	5	3.4	0.1	4.0	0.3	-2.1	-3.9	2.9
FTSE 250	10855	29	2.8	0.3	8.7	1.1	-6.8	-6.6	7.4
FTSE 350	3027	3	3.3	0.1	4.6	0.5	-2.7	-4.2	3.5
FTSE ALL SHARE	2959	4	3.3	0.1	4.7	0.5	-2.9	-4.4	3.5
FTSE SMALL CAP	2931	41	2.9	1.4	7.5	1.6	-10.6	-10.7	6.7
FTSE AIM ALL-SHARE	764	10	0.6	1.3	11.3	4.7	-12.7	-19.3	10.2

## All-Share Sub-Sector Performance

## Absolute Performance (% change)

## Relative Performance (% change)

	Weight	1w	1m	3m	6m	YTD	1w	1m	3m	6m	YTD
<b>Oil &amp; Gas</b>	<b>18.1%</b>	<b>-0.7</b>	<b>-0.3</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.4</b>	<b>-0.8</b>	<b>-4.9</b>	<b>-1.5</b>	<b>1.9</b>	<b>-4.9</b>
Oil & Gas Producers	17.4%	-0.7	-0.5	-1.2	-0.8	-1.6	-0.9	-5.1	-1.7	2.1	-5.2
Oil Equipment, Services & Distribution	0.7%	0.6	5.3	2.7	-5.8	5.6	0.5	0.6	2.2	-2.9	2.1
<b>Basic Materials</b>	<b>12.5%</b>	<b>2.4</b>	<b>15.5</b>	<b>4.3</b>	<b>-11.0</b>	<b>15.8</b>	<b>2.3</b>	<b>10.8</b>	<b>3.8</b>	<b>-8.1</b>	<b>12.3</b>
Chemicals	0.6%	0.4	12.5	6.8	-2.5	12.5	0.2	7.9	6.4	0.5	9.0
Forestry & Paper	0.1%	2.4	14.8	7.6	-17.7	13.5	2.2	10.1	7.1	-14.8	10.0
Industrial Metals	0.2%	3.0	24.4	5.5	-27.9	29.5	2.8	19.7	5.1	-25.0	25.9
Mining	11.6%	2.5	15.5	4.1	-11.3	15.8	2.4	10.8	3.6	-8.4	12.3
<b>Industrials</b>	<b>8.0%</b>	<b>-0.5</b>	<b>6.9</b>	<b>4.2</b>	<b>-0.9</b>	<b>4.8</b>	<b>-0.6</b>	<b>2.3</b>	<b>3.7</b>	<b>2.0</b>	<b>1.3</b>
Construction & Materials	0.7%	-2.9	4.1	1.9	-9.7	1.9	-3.0	-0.6	1.4	-6.8	-1.6
Aerospace & Defence	1.9%	-0.6	5.9	2.6	6.3	3.2	-0.7	1.2	2.1	9.2	-0.4
General Industrials	0.6%	0.3	11.0	7.7	-7.0	9.6	0.1	6.4	7.2	-4.1	6.1
Electronic & Electronic Equipment	0.4%	2.8	15.5	10.9	-9.8	14.2	2.7	10.9	10.4	-6.9	10.7
Industrial Engineering	0.8%	0.3	6.7	4.7	-3.4	4.5	0.2	2.0	4.2	-0.5	1.0
Industrial Transportation	0.1%	1.8	7.4	0.9	-11.4	6.6	1.7	2.8	0.4	-8.5	3.1
Support Services	3.5%	-0.7	6.5	3.7	-1.0	4.5	-0.8	1.8	3.2	2.0	1.0
<b>Consumer Goods</b>	<b>13.0%</b>	<b>1.1</b>	<b>1.7</b>	<b>2.6</b>	<b>3.9</b>	<b>0.3</b>	<b>1.0</b>	<b>-3.0</b>	<b>2.1</b>	<b>6.8</b>	<b>-3.3</b>
Automobiles & Parts	0.2%	-1.0	13.7	3.2	-7.9	14.3	-1.1	9.1	2.7	-5.0	10.7
Beverages	3.8%	2.4	5.0	5.5	8.2	3.2	2.3	0.3	5.0	11.1	-0.4
Food Producers	2.1%	1.0	-1.2	0.2	4.8	-2.6	0.9	-5.9	-0.3	7.7	-6.1
Household Goods	1.9%	-1.0	6.6	3.5	-0.3	6.4	-1.2	2.0	3.0	2.6	2.8
Leisure Goods	0.0%	-9.3	-1.4	-14.9	-20.0	-2.9	-9.5	-6.1	-15.4	-17.1	-6.4
Personal Goods	0.4%	-0.5	10.4	-4.2	-12.7	11.1	-0.7	5.8	-4.7	-9.8	7.6
Tobacco	4.7%	1.2	-2.4	1.6	4.1	-4.1	1.1	-7.0	1.1	7.0	-7.6
<b>Health Care</b>	<b>7.6%</b>	<b>-0.6</b>	<b>-0.6</b>	<b>2.2</b>	<b>2.4</b>	<b>-1.7</b>	<b>-0.8</b>	<b>-5.2</b>	<b>1.7</b>	<b>5.3</b>	<b>-5.3</b>
Health Care Equipment & Services	0.4%	0.6	1.0	6.1	-6.4	-1.8	0.4	-3.7	5.6	-3.5	-5.3
Pharmaceuticals & Biotechnology	7.3%	-0.7	-0.7	2.0	2.9	-1.7	-0.8	-5.3	1.5	5.8	-5.3
<b>Consumer Services</b>	<b>9.0%</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-4.6</b>	<b>-5.4</b>	<b>-2.2</b>	<b>-0.8</b>	<b>-4.7</b>	<b>-5.1</b>	<b>-2.5</b>	<b>-5.7</b>
Food & Drug Retailers	2.3%	-1.9	-13.5	-16.4	-13.6	-15.9	-2.0	-18.2	-16.8	-10.7	-19.4
General Retailers	1.4%	0.1	7.7	-2.4	-4.5	5.8	-0.1	3.0	-2.9	-1.5	2.2
Media	2.7%	-0.2	4.3	2.0	0.7	2.9	-0.3	-0.3	1.5	3.6	-0.7
Travel & Leisure	2.5%	-0.5	6.0	0.1	-3.8	3.3	-0.6	1.3	-0.4	-0.9	-0.2
<b>Telecommunications</b>	<b>6.2%</b>	<b>-2.3</b>	<b>-1.0</b>	<b>-0.1</b>	<b>5.7</b>	<b>-2.1</b>	<b>-2.4</b>	<b>-5.7</b>	<b>-0.5</b>	<b>8.6</b>	<b>-5.6</b>
Fixed Line Telecommunications	1.1%	-0.3	5.2	4.1	1.7	5.8	-0.5	0.6	3.7	4.6	2.2
Mobile Telecommunications	5.1%	-2.7	-2.3	-0.9	6.6	-3.7	-2.8	-6.9	-1.4	9.5	-7.2
<b>Utilities</b>	<b>3.7%</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-4.2</b>	<b>-2.9</b>	<b>-2.0</b>	<b>-0.2</b>	<b>-5.6</b>	<b>-4.6</b>	<b>0.0</b>	<b>-5.5</b>
Electricity	0.8%	-3.0	-3.7	-8.6	-7.5	-5.9	-3.1	-8.4	-9.1	-4.6	-9.4
Gas, Water & Multiutilities	3.0%	0.7	-0.2	-3.0	-1.7	-1.0	0.5	-4.8	-3.5	1.3	-4.5
<b>Financials</b>	<b>20.5%</b>	<b>0.5</b>	<b>11.7</b>	<b>-0.7</b>	<b>-8.2</b>	<b>10.9</b>	<b>0.4</b>	<b>7.0</b>	<b>-1.2</b>	<b>-5.2</b>	<b>7.4</b>
Banks	10.2%	0.2	14.8	-0.6	-8.2	14.6	0.0	10.2	-1.0	-5.2	11.1
Nonlife Insurance	0.8%	0.4	5.2	-5.2	-13.6	4.0	0.3	0.5	-5.6	-10.7	0.4
Life Insurance	3.1%	1.9	13.4	3.6	3.1	12.1	1.7	8.8	3.2	6.0	8.6
Real Estate Investment & Services	0.3%	1.3	3.9	-0.5	-11.6	3.0	1.1	-0.8	-1.0	-8.7	-0.5
Real Estate Investment Trusts	1.3%	0.1	9.2	-2.2	-16.0	7.4	0.0	4.5	-2.7	-13.1	3.9
General Financial	1.7%	0.7	8.0	-5.7	-17.4	7.0	0.5	3.3	-6.2	-14.5	3.5
Equity Investment Instruments	3.0%	0.2	5.6	-0.5	-7.1	4.8	0.1	0.9	-0.9	-4.1	1.3
<b>Technology</b>	<b>1.5%</b>	<b>1.0</b>	<b>7.3</b>	<b>2.2</b>	<b>4.6</b>	<b>5.6</b>	<b>0.9</b>	<b>2.6</b>	<b>1.7</b>	<b>7.5</b>	<b>2.1</b>
Software & Computer Services	0.8%	-0.3	8.9	2.0	6.4	7.6	-0.4	4.2	1.5	9.4	4.0
Technology Hardware & Equipment	0.7%	2.6	5.5	2.3	2.0	3.4	2.5	0.8	1.8	4.9	-0.2

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