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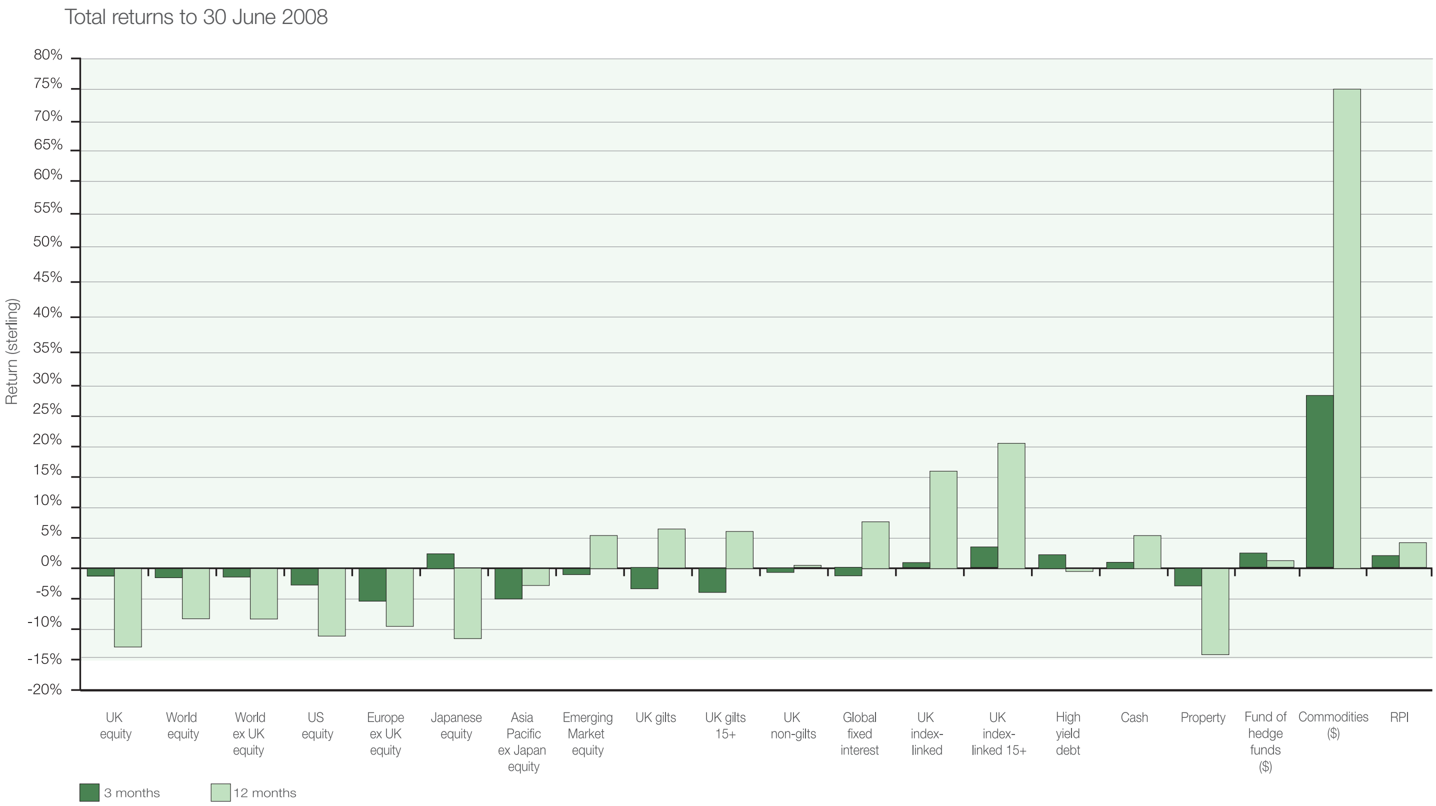
informed

Investment market newsletter | August 2008

Review of investment markets for 1 April to 30 June 2008



Over the past year, the onset of the credit crunch has meant that most experts now believe it is almost certain that the US will enter a recession, with some experts warning that it may be a severe rather than a mild recession. The fear of a global economic slowdown was further reinforced by rising oil prices over the quarter. This, alongside rising food prices worldwide, has meant the global outlook for growth is more negative than we have seen for a number of years. Economists have predicted house prices will continue to fall heavily in the US, while there may be some significant changes in the global banking system before the US and global economies begin to recover.

Because of conditions worldwide, the past year has been a difficult time for investment markets. Specifically, the returns from equities have been hit hard. Global equities are continuing to experience negative returns and, in a similar way, corporate bonds have also produced negative returns over the quarter, despite generally positive returns over the year. Property has also experienced significant negative returns over the year.

In this environment, the class of assets that showed the best returns was inflation-linked bonds issued by the UK Government.

The UK base rate (the rate of interest UK banks use as a basis when making loans to customers) was set at 5% in June 2008, having peaked at 5.75% during the third and fourth quarters of 2007. The Bank of England is under pressure to cut interest rates even more to ease worries about a housing-market crash, even though there is a danger this might increase inflation in the UK.

The Eurozone (those countries that adopted the Euro as their currency) has experienced unchanged interest rates over the last year with the European Central Bank maintaining a rate of 4%. In the US, the Federal Reserve has been cutting interest rates since July 2007 in an attempt to tackle the worsening housing market and economic conditions.