

Weekly markets review, week ending 11 September 2009

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Buying spree typifies market sentiment

Recent weeks have seen some increasing signs of takeover activity. This week saw a peak in activity that is consistent with the significantly positive sentiment in equity markets.

Most important of all, Kraft Foods, the world's second-largest food company, said it would pursue a takeover of Cadbury after the British maker of Dairy Milk chocolate rejected a £10.2 billion bid. Cadbury shares soared 38 percent, pushing its market value above the bid price, as Kraft's proposal was expected to trigger rival offers from Nestle and Hershey.

Elsewhere, bailed-out American insurer AIG agreed to sell its fund management business to Hong Kong's Pacific Century for \$500 million. Meanwhile, Europe's biggest telephone company, Deutsche Telekom, and France Telecom, agreed to merge their UK units (T-Mobile and Orange) to form the country's largest mobile-phone operator. Also in Europe, Vivendi fell 1.9 percent after announcing plans to buy Brazilian telecommunications provider GVT for about \$3 billion.

Strong week for equities

Stocks across all regions rallied after the IMF said the crisis phase that toppled Lehman Brothers Holdings in September 2008 is "almost certainly behind us."

In the UK, Cadbury was unsurprisingly the biggest winner this week, but it was followed by a selection of high-beta basic-materials stocks, including Cairn Energy, BG Group, Kazakhmys, Xstrata and Vedanta Resources. The main losers were retailers, notably Home Retail Group, Kingfisher and Burberry Group, after UK retail sales were weaker than expected in August.

This week brought some signs of life in the semiconductor sector. Texas Instruments, the second-largest US chipmaker, predicted third-quarter sales and profit ahead of analysts' predictions because of improving demand for chips used in computers and consumer electronics. Meanwhile, Dutch semiconductor equipment maker ASML raised its sales forecast as customers resume buying its machines.

In the energy sector, Brazil's Petrobras said its new Guara field in Santos Basin contains up to 2 billion barrels of oil. The state-controlled oil company said initial output at the deepwater field may be as much as 50,000 barrels of oil equivalent a day by 2012. This is significantly higher than expected.

In Asia, Australian business confidence jumped to the highest level in almost six years. And in the corporate sector, Li & Fung, the biggest supplier of clothes and toys to Wal-Mart Stores and Target, also gave some insight into the strength of demand when it reported seeing "pretty strong" re-orders from retailers. Perhaps the US consumer is loosening the purse strings again, at least in discount stores.

Bonds sceptical of sustained recovery

US Treasury 10-year notes posted a fifth week of gains after positive auctions of \$70 billion in bonds and a report showing consumer spending remains soft. The other significant economic report of the week saw the Federal Reserve's Beige Book survey reveal that while the worst of the downturn may be past, the economy has yet to show broader growth.

German 10-year bonds also rose for a fifth straight week. In economic news, German manufacturing orders rose 3.5% in July from a month earlier, while a report showed French industrial production expanded for a third month in July. Meanwhile, ECB President Jean-Claude Trichet said, "latest indicators have been better than anticipated and stabilisation is something which seems to be confirmed at the global level".

UK gilts also performed relatively well, recovering in the second half of the week. Retail sales fell in August after two months of increases, casting doubt on the sustainability of recovery. Meanwhile, higher auto production boosted UK manufacturing output to its strongest level of growth in more than three years in July. Some investors saw this as a sign that the UK recession is over, but the 'cash-for-clunkers' schemes in the US, Europe and the UK may have artificially inflated the figures.

Finally, in high-yield bonds, a report from Standard & Poor's showed that defaults among speculative-grade companies will peak at about 15 percent this year in Europe. S&P also noted the current rate to be 11 percent.