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GLOBAL MARKET UPDATE

EUROPE EDGES UP; GRIM HOUSING DATA DRAGS US

Global equities were mixed on Tuesday despite further signs of improvement in financial and economic conditions. The Chicago Board Options Exchange's Volatility Index, otherwise known as the market's fear gauge, dropped below the 30 level for the first time since the collapse of Lehman Brothers last September, suggesting that investors feel less need to insure their equity portfolios using options. Interbank lending rates continued to fall and credit indices showed costs of protecting corporate bonds against default declined. However, gains were limited following a US government report which said that housing starts fell 12.8% to a seasonally adjusted annual rate of 458,000 units – a record low. The news undermined hopes that stability in the housing market was imminent.

European shares advanced as investors favoured the financial sector, driven by news that several firms were preparing to rid themselves of government crutches. There were reports that leading US banks Goldman Sachs, JPMorgan and Morgan Stanley were rushing to repay government funds and authorities in the UK held talks with investors to gauge their interest in buying stakes in part-nationalised banks. Mining stocks rose in tandem with metal prices. Sentiment was also supported by the ZEW survey that showed German analyst and investor sentiment rose to its highest in nearly three years in May.

In the US, shares in residential construction companies were lower. Moreover, financials fell sharply as the US Senate passed a bill to curb sudden credit card interest rate increases and hidden fees, a move that is likely to hurt the profits of major credit card issuers. The Dow Jones and S&P 500 slipped but the Nasdaq was cushioned from the worst of the losses as investors bought technology names ahead of results from Hewlett Packard (HP). However, after market hours, the computer manufacturer gave a pessimistic revenue forecast for the fiscal year as it reported in-line results.

Most Asian indices were higher this morning. Commodity companies rose after Goldman Sachs recommended buying Mitsubishi, while financials declined. A report showing Japan's economy contracted by an annualised 15.2% in January-March 2009 supported Japanese stocks as the fall was less than expected.

Looking Ahead

The considerable fall in volatility in stockmarkets points towards some stability in the sentiment on account of expectations that economies will start to pick up soon. Indications of some strength in the banking sector have also emerged with several of the 19 banks seeking to return the funds that they received under the Troubled Asset Relief Program (TARP). According to reports, however, the federal government will not allow any banks to pay back until on or around 8 June, the date by which 19 banks that underwent stress tests must submit capital raising plans to the government. Meanwhile, US Treasury Secretary Timothy Geithner will testify at a TARP oversight hearing before the Senate Banking Committee today.

As earnings season wraps up in the US and investors continue to closely track corporate results, HP's discouraging forecast, that came out after yesterday's markets closed, may guide sentiment today. Retailers remain in limelight with reports from discount chain Target, entertainment software retailer GameStop and specialty retailer Gap, which are among the 16 S&P 500 companies scheduled to post earnings this week. In Europe, air carrier British Airways will announce figures, while computer firm Lenovo's results are scheduled for tomorrow in Asia.

On the economic front, today economists will examine minutes of the Federal Open Market Committee's April meeting to see what the central bankers felt about the economic outlook. Moreover, UK's first-quarter economic growth data may move markets. In Japan, following the release of its GDP numbers, all eyes are on Friday, when the Bank of Japan (BoJ) meets to discuss interest rates. Economists expect the BoJ to keep rates unchanged but the key here will be whether the central bank reveals any more liquidity measures.

Equity Markets

European equities rose for a second consecutive day on Tuesday. Shares in Commerzbank and Deutsche Bank climbed. Bank of Ireland surged significantly after the lender reported an increase in its capital ratios and said it would buy back its steeply discounted bonds to boost its capital position. Among automobiles, Fiat moved higher after Italian industry minister said the company should keep all its car plants open and that state help might be extended to the group. Daimler bought a near 10%



stake in Tesla, a Silicon Valley-based manufacturer of electric-powered sports cars. Renault, whose subsidiary Nissan reported that sales for its own eco-friendly cars were up 30% in May due to local initiatives, rose. Other car manufacturers including BMW and Peugeot also enjoyed strong gains. The only exception was Volkswagen, as its proposed merger with Porsche remained on hold. Steel firms were in demand across the region. Klöckner, the German group, was upgraded by UBS and its target price was raised. Larger peers Thyssenkrupp, Salzgitter and ArcelorMittal also rose.

Disappointing housing data pushed US equities lower on Tuesday. Shares in residential construction companies, such as Centex and Pulte Homes, declined and home improvement retailer Home Depot's stock fell despite its stronger-than-expected quarterly profits. A Moody's report that underscored the woes in the US commercial property segment also proved detrimental. It said that commercial prices are now down almost 23% from the October 2007 peak and transactions have dropped as much as 80%. However, American Express's announcement of a 6% cut in its workforce was welcomed. Further relief came from upmarket retailer Saks, whose shares jumped due to a narrower-than-expected loss due to cost cuts and better inventory management. Elsewhere, utility stocks rallied after Goldman Sachs said that the shares' underperformance in 2009 is "too extreme" to be ignored and funding headwinds have been removed.

Asian markets were subdued this morning. In Japan, the benchmark index modestly advanced as a government report showed the economy contracted less than some economists predicted. Steel and shipping stocks were among the front runners, buoyed by an increase in cargo rates for bulk goods. In particular, Nippon Steel, Mitsui OSK Lines and Kawasaki Kisen Kaisha benefited. Shares in commodity trader Mitsubishi found additional support in a buy recommendation for the stock by a leading broker. Technology names in Korea rose after some resilience in their US peers. In Australia, equities were weighed upon by the performance of consumer related stocks. Surf-wear manufacturer Billabong International slipped due to a share sale. Disappointing earnings at Japan's largest life insurer T&D Holdings and James Hardie Industries, a Sydney-listed seller of home-siding in the US, dragged their share prices lower. Investor sentiment in China and Hong Kong was dampened following indications from the World Bank that the enthusiasm about an economic recovery in China may be "premature" as private investment lags behind government spending.

as at 19/05/09 Source: Datastream, Price Index Returns in local currency. Past performance is not a reliable indicator of future

	Market	Close as at 19/05/09	% change 19/05/09	Net change	% change 12 months	% change 5 years	% off peak during past 12 months*
US	US: Dow Jones	8474.9	-0.34	-29.23	-34.95	-14.72	-34.95
	US: S&P 500	908.1	-0.17	-1.58	-36.34	-16.58	-36.34
	US: NASDAQ	1734.5	0.13	2.18	-31.06	-8.62	-31.98
Europe	MSCI Europe	937.6	1.25	11.58	-35.03	-4.33	-35.03
	UK: FTSE All Share	2285.2	0.92	20.75	-29.54	3.07	-29.54
	UK: FTSE 100	4482.3	0.81	35.80	-29.71	0.23	-29.71
	Germany: DAX	4959.6	2.22	107.66	-31.36	28.08	-31.36
	France: CAC 40	3275.0	0.91	29.57	-36.31	-10.11	-36.31
	Netherlands: All Share	412.0	1.44	5.85	-46.41	-14.48	-46.41
	Italy: S&P MIB	20172.0	1.10	219.00	-40.06	-26.72	-40.06
	Switzerland: SMI	5498.8	1.17	63.68	-29.31	-3.70	-29.31
	Spain: IBEX 35	9341.6	1.99	182.30	-34.43	18.25	-34.43
	Sweden: OMX	789.2	1.19	9.30	-23.89	17.64	-23.89
	Japan: Nikkei	9290.3	2.78	251.60	-34.89	-15.29	-35.88
Asia	MSCI Asia Pacific ex Japan	340.4	2.17	7.23	-30.24	43.60	-30.24
	Hong Kong: Hang Seng	17544.0	3.06	521.12	-31.85	52.96	-31.85
	Australia: S&P/ASX 200	3817.3	2.19	81.70	-35.84	12.58	-35.84
	China: Shanghai Shenzhen 300	2840.1	1.05	29.51	-27.44	NA	-27.44

*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 after a report showed that German investor confidence increased and gains in equities sapped demand for the safety of fixed income assets. **US** Treasuries were little changed as housing starts unexpectedly dropped in April and Minneapolis Federal Reserve Bank President Gary Stern stated that the US economy should return to “healthy growth” by the middle of next year. Meanwhile, the cost of protecting company bonds from default fell following reports of banks trying to repay government funds. The banks applied to refund a combined \$45 billion of funds received under the TARP after Goldman Sachs and JPMorgan passed the stress tests earlier this month and Morgan Stanley raised more capital than regulators said it may need to withstand further deterioration of the economy. Contracts on benchmark credit swap indexes in the US and Europe also fell. A decline in the contracts used to speculate on creditworthiness or to hedge against losses, signals improvement in investor confidence. Elsewhere, **Japanese** bond yields were little changed this morning following reports of a record drop in GDP in the first quarter, which backed speculation that investors will seek the safety of government debt..

as at 19/05/09		Source: Bloomberg, Merrill Lynch.			
	Market	Close (%)	Change (percentage points)		
			One Day	12 months	5 years
10-year Govt Bond Yields	US	3.24	0.01	-0.59	-1.53
	UK	3.50	0.02	-1.33	-1.66
	Eurozone	3.44	0.08	-0.78	-0.91
	Japan	1.43	0.02	-0.25	-0.07
Credit spreads (BBB)	Market	Close (basis points)	Change (basis points)		
			One Day	12 months	5 years
	US	565	-7	274	432
	UK	730	-41	440	601
	Eurozone	502	-6	297	418
	Japan	336	0	253	305

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. 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 19/05/09		Source: Datastream, Price Index Returns in local currency				
	Market	% change 12 mths to 19/05/2009	% change 12 mths to 19/05/2008	% change 12 mths to 19/05/2007	% change 12 mths to 19/05/2006	% change 12 mths to 19/05/2005
US	US: Dow Jones	-34.95	-3.90	21.65	6.20	5.59
	US: S&P 500	-36.34	-6.31	20.18	6.38	9.41
	US: NASDAQ	-31.06	-1.66	16.62	7.41	7.61
EU	MSCI Europe	-35.03	-11.07	23.69	19.30	12.22
	UK: FTSE All Share	-29.54	-5.98	19.61	16.63	11.53
	UK: FTSE 100	-29.71	-3.98	17.39	14.00	10.98
	Germany: DAX	-31.36	-5.02	34.12	30.09	12.61
	France: CAC 40	-36.31	-15.72	23.39	21.01	12.15
	Netherlands: All Share	-46.41	-6.85	25.14	22.52	11.72
	Italy: S&P MIB	-40.06	-24.15	21.07	15.83	14.93
	Switzerland: SMI	-29.31	-17.46	23.78	26.53	5.39
	Spain: IBEX 35	-34.43	-5.45	33.69	19.90	18.99
	Sweden: OMX	-23.89	-18.32	33.40	21.20	17.03
	Asia	Japan: Nikkei	-34.89	-17.99	7.70	45.84
MSCI Asia Pacific ex Japan		-30.24	9.58	24.38	28.60	17.45
Hong Kong: Hang Seng		-31.85	23.14	28.15	19.08	19.44
Australia: S&P/ASX 200		-35.84	-5.75	23.75	26.12	19.28
China: Shanghai Shenzhen 300		-27.44	3.64	176.45	NA	NA

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