

Weekly markets review, week ending 3 September 2010

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We recommend that investors seek financial advice before making investment decisions.

Market Returns

Index	Currency	1 week	1 month	6 months	1 year	3 years	5 years	10 years
FTSE 100	GBP	4.37	1.46	-1.22	15.72	-2.62	22.29	13.13
FTSE 250	GBP	4.41	0.64	5.92	19.68	-1.22	50.41	92.13
FTSE All-Share	GBP	4.33	1.33	-0.33	16.07	-3.36	24.75	20.34
S&P 500	USD	5.33	-1.67	-2.03	10.86	-19.71	0.77	-11.71
Topix	JPY	-0.66	-3.87	-8.66	-10.44	-44.57	-31.09	-37.24
FTSE W Europe Ex UK	Local	4.25	-1.98	-0.16	8.31	-25.14	7.10	-12.32
FTSE World Ex UK	GBP	4.69	0.78	-4.01	14.80	6.95	33.78	3.04
FTSE W Asia Pacific Ex Japan	Local	1.43	-0.05	2.75	10.58	-5.47	50.91	93.66
FTSE A British Govt All Stocks	GBP	-1.17	1.78	8.15	6.78	26.08	30.88	n/a
Merrill Lynch Sterling Non-Gilt All Stocks	GBP	-0.82	1.90	7.78	12.54	21.28	23.65	85.13

Fears of a 'double-dip' recession start to fade

Thanks in part to last Friday's news that the US economy shed 'only' 54,000 jobs in August, global stockmarkets rallied last week. That America's army of unemployed continued to grow (reaching 9.6 per cent of the workforce in August), might not seem like cause for celebration. Crucially, however, the news was far better than the market had feared, easing worries of a 'double-dip' recession in the world's largest economy. The data also showed that the private sector hired more workers than it laid off in August, creating 67,000 jobs.

The market's bullish mood was given a further boost by revisions to earlier forecasts. The Labor Department revised down its figures for the number of jobs lost earlier in the summer. The new data showed that the US lost 175,000 jobs in June (down from the previous reading of 221,000) and 54,000 jobs in July, rather than the 131,000 job losses indicated in previous forecasts.

These better-than-expected figures seemed to support the positive signal given earlier in the week by a closely watched survey of the US manufacturing sector. The Institute for Supply Management said that its manufacturing index unexpectedly rose to 56.3 in August from 55.5 in July. A reading above 50 indicates growth. The manufacturing sector in the US has now expanded for 13 consecutive months. Investors – and 14.9 million unemployed Americans – can only hope that manufacturers' confidence translates into jobs, renewed consumer confidence and economic growth.

Equity markets rally, buoyed by stronger economic data and corporate activity

After a disappointing August, traders returned to their desks after the summer holiday in buoyant mood as news on jobs and manufacturing in the US beat expectations. There was also reassuring signals from the world's second-largest economy: China reported that manufacturing activity picked up in August after several months of modest declines, indicating that any slowdown in Asia's exporting powerhouse is likely to be gradual.

Investors' growing confidence seems to be shared by company managers: figures from Thomson Reuters showed that this was the busiest August for M&A activity since the feverish days of the tech bubble in 1999. That surge in corporate activity showed little sign of fading last week.

Reports leaked that the Chinese government is encouraging Sinochem, a state-owned chemical company, to go head-to-head with Anglo-Australian miner BHP Billiton in the battle for control of PotashCorp, a Canadian fertiliser company.

In the US, data-storage company 3Par announced that Hewlett-Packard had increased its previous offer for the company by 10 per cent in a bid to beat an improved offer from Dell. HP's latest bid values 3Par at around \$2.1 billion. Shares in Saks also moved sharply higher on the week, as speculation mounted that a private-equity buyer was preparing a cash bid of around \$1.7 billion for the high-end fashion retailer.

In the UK, Yell Group, the publisher of the yellow pages in Britain, rose by eight per cent on rumors of a bid. A £2.9 billion offer for Tomkins, which makes industrial and automotive parts, was accepted by most of the company's shareholders. Troubled restaurant group Burger King, meanwhile, agreed to be bought by New York-based private-investment firm 3G Capital Management for \$24 a share.

Not every company was quite so receptive to bid interest. Genzyme, an American biotechnology company, rejected an \$18.5 billion takeover bid by Sanofi-Aventis. Genzyme said the French pharmaceutical giant's offer "dramatically undervalued" its promising pipeline of new drugs.

Bond yields rise as confidence returns

After a very strong run in August, government bond markets sold off last week in response to better-than-expected news on US jobs and manufacturing. By the end of the week, the yield on US Treasuries had reached 2.71 per cent, up from a mid-week low of 2.47 per cent.

That move higher was reflected elsewhere, despite somewhat mixed economic data. While unemployment in Europe remained stuck at 10 per cent, the number of those seeking work fell in Germany, the Eurozone's strongest economy. The yield on 10-year German bunds climbed to 2.35 per cent from 2.2 per cent. In the UK, meanwhile, the yield on 10-year gilts edged above 3 per cent even as the purchasing managers' index fell to its lowest level for nine months.

Japanese government bond yields also moved higher as mounting political concerns and weak demand at a government-debt auction weighed on sentiment. Bond investors are worried that if Ichiro Ozawa, who advocates an expansionary fiscal policy, beats Prime Minister Naoto Kan in the Democratic Party of Japan's leadership election, then Japan could abandon fiscal tightening and start issuing more bonds. By the end of last week, the yield on Japan's benchmark 10-year bonds had touched 1.15%, its highest level since mid July.

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