

European and US economic data drag equities

Global equities declined on Thursday. In Europe, sentiment was depressed by reports of a fall in German business confidence and by weak earnings reports and forecasts, particularly from car manufacturers and airlines. Moreover, mining firms retreated as metal prices dropped. Stocks extended losses after US home sales slid more than forecast and a report showed that the number of Americans filing first-time claims for unemployment benefits rose last week. US investor confidence was further hurt when a market commentator predicted that the housing slump would cost banks and brokerages US \$1 trillion. Financials and homebuilding stocks also ended lower.

Asian indices followed suit, declining in early trade on Friday. Financials and consumer electronics firms fell due to renewed concerns that credit-market losses could widen and the global economic slump is likely to erode earnings.

As at 24/07/08:

	Market	Close as at 24/07/08	% change 24/07/08	Net change	% change 12-months	% change 5 years	% off peak during past 12 months*
US	US: Dow Jones	11349.3	-2.43	-283.10	-17.26	24.55	-19.88
	US: S&P 500	1252.5	-2.31	-29.65	-17.11	27.60	-19.97
	US: NASDAQ	2280.1	-1.97	-45.77	-13.63	34.01	-20.25
EU	MSCI Europe	1220.3	-1.41	-17.48	-23.44	38.82	-24.84
	UK: FTSE All Share	2733.0	-1.63	-45.40	-18.66	34.18	-20.89
	UK: FTSE 100	5362.3	-1.61	-87.63	-17.49	29.22	-20.33
	Germany: DAX	6440.7	-1.46	-95.39	-17.50	90.85	-20.25
	France: CAC 40	4348.0	-1.38	-60.75	-26.40	37.73	-25.84
	Netherlands: All Share	614.0	-2.29	-14.39	-27.72	36.90	-28.20
	Italy: S&P MIB	28665.0	-0.61	-176.00	-30.03	14.42	-30.27
	Switzerland: SMI	7056.9	-0.02	-1.31	-22.00	41.97	-23.45
	Spain: IBEX	11675.1	-2.18	-259.80	-21.71	67.24	-26.78
	Sweden: OMX	857.3	-2.64	-23.24	-32.75	54.29	-32.37
Asia	Japan: Nikkei	13603.3	2.18	290.38	-24.43	40.66	-23.83
	MSCI Asia Pacific ex Japan	415.8	0.60	2.50	-16.07	98.90	-26.45
	Hong Kong: HSI	23087.7	-0.20	-46.83	-1.64	132.67	-27.03
	Australia: AS200	5144.1	0.76	38.80	-19.90	66.44	-24.67
	China: Shanghai Shenzhen 300	2977.4	3.26	94.04	-28.45	NA	-49.34

Source: DataStream, Price Index Returns in local currency.

*This reflects the % amount that each market has fallen since its highest point in the last 12 months.

Equity Markets:

European stocks fell on Thursday, surrendering most of the previous session's gains, as cuts in annual forecasts from Daimler and Renault hit automobile manufacturers. Miners including Rio Tinto and Xstrata fell; nickel and copper prices retreated amid concerns over global economic growth. Shares in Dutch mail company TNT slipped following a report that takeover talks with US major FedEx had ended. Within banks, shares in Credit Suisse advanced after posting forecast-beating earnings, but this failed to spark a rally in the banking sector. On a more positive note, retail stocks were bolstered by French group PPR, which climbed after announcing better than expected second-quarter sales. Among UK equities, British Energy rose; the nuclear operator said that its long running takeover talks had reached an advanced stage.

Europe's economic outlook continued to deteriorate; latest data releases showed that business confidence in two of the regions' largest economies, France and Germany, dipped due to business leaders' growing pessimism over the economy's prospects. The closely watched Ifo survey of German business confidence fell to its lowest point in nearly three years in July, dragged down by concerns over weakening business in the next six months, while in France, business confidence dropped sharply. Furthermore, UK retail sales declined significantly as accelerating inflation and the slowdown in economic growth prompted consumers to cut spending.

US equities ended lower on Thursday, as weaker than expected housing data combined with discouraging news from multiple sectors led to a sell-off, especially among financials. Investor sentiment turned negative after data from the National Association of Realtors showed that June sales of existing homes hit a 10-year low. Another economic report showed a larger-than-expected rise in the number of Americans filing for jobless benefits in the latest week, adding to concerns about a slowing labour market. Meanwhile, a report by research firm Gimme Credit raised concerns about the health of the banking firm Washington Mutual, pointing out that its unsecured creditors were pulling funds from the bank. Elsewhere, a series of brokerage downgrades involving Boeing, AT&T and McDonald's and a wider-than-expected loss at automobile manufacturer Ford put added pressure on shares. A rise in oil prices further hurt key consumer discretionary and industrials stocks.

Asian stocks fell in the morning session today, led by financial companies and consumer electronics manufacturers. Among Australian equities, National Australia Bank dropped after the lender said that it would provide for losses related to US mortgages. The announcement also hurt other financials, such as Commonwealth Bank of Australia and Macquarie Group. Meanwhile, in Japan, Mizuho Financial Group edged lower, mirroring an overnight sell-off in US markets. Elsewhere in China, shares in China Merchants Bank and Ping An Insurance fell. Disappointing earnings from Samsung Electronics, Canon and AU Optronics, led their stocks lower. In economic news, Japan's core inflation rose at a decade-high rate of 1.9% in June from the same month a year ago, due to increases in transportation, utility and food costs, according to official data released today.

Fixed Income Markets:

European government bonds rose in view of disappointing economic data releases in the region. In the **UK** too, gilts extended gains following a significant drop in retail sales in June. **US** Treasuries advanced as equities ended lower and an industry report showed sales of previously owned homes fell in June. Taking cue from their US and European counterparts, government securities in **Japan** were trading higher in the morning.

Fixed Income as on 24/07/08

10-year Govt Bond Yields	Market	Close (%)	Change (percentage points)		
			One Day	12 Months	Five Years
	US	4.00	-0.12	-0.91	-0.17
	UK	4.98	-0.07	-0.33	0.54
	Eurozone	4.57	-0.10	0.14	0.50
	Japan	1.66	0.01	-0.21	0.66
Credit spreads (BBB)	Market	Close (basis points)	Change (basis points)		
			One Day	12 Months	Five Years
	US	327	2	189	162
	UK	311	1	190	158
	Eurozone	229	3	150	116
	Japan	86	0	50	47

Source: Bloomberg, Merrill Lynch.

Looking Ahead:

Macroeconomic data releases in the US on Friday will include new home sales, durables goods orders and consumer sentiment. The US government's moves towards stabilising the housing and financial markets remain in focus.

Trevor Greetham, Fidelity's Asset Allocation Director commented, "We are watching the US housing market as a lead indicator for a recovery in the US growth cycle. It peaked in 2006, a year before equities and the broader US economy, and ought to recover first."

Investors are also likely to follow the trend in oil prices, to ascertain if the current fall is sustainable.

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