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## Market seems stabilized, risk factors receding

Equities markets started the month with big declines, but it managed to become stable and bounce back towards the end of the month.

The downside risk is now much lower as major risk factors e.g. strength of Japanese Yen and spread out of sub-prime mortgage problem in US are fading away. Since the market slump was likely a correction along the bull run, we are cautiously optimistic for the performance of equities market after the recent adjustments. We also suggest investors to start looking for opportunities to rebalance the portfolio towards equities market if they are on a conservative footing.

So, which market shall we look at?

Europe and Asian markets are our favourite for developed and emerging markets respectively.

They had out-performed their peers in the first 2 months of 2007 continued to be the leaders in the bounce back. Germany led the major markets with 3.00% gain in the month and it had gone up to 6,900 level, just shy of the 7,000 points level right before the turn down. For other markets, Singapore and Malaysia also demonstrated superior strength and recovered most of the declines.

The strength of these markets is in fact supported by fundamental factors. Germany's job market continued to improve and retail sales in the country turned up slightly in February. For Singapore and Malaysia, both had good support from favourable policies and economic development. Singapore had lowered the corporate profit tax and strong high-end property market. Malaysia benefited from strong demand for palm oil as alternative energy source and the government had cut property gain tax.

With strong market performance and favourable fundamentals, we think that Europe and Asia markets shall keep on doing well in the near future.

### **US: Neutral**

US market turned up in the month. DJIA rose slightly by 0.70%, S&P 500 went up 1.00% and NASDAQ up by 0.22%. Concerns about the sub-prime mortgage problem faded for the time being. Still, it would take more time to see the full impact. On policy side, the Fed hold the interest rate at 5.25%. What's came as a little surprise to the market was that it had removed the wordings "The extent and timing of any additional firming that may be needed" from the statement after the FOMC meeting. It was taken as a softening in the stance for adding to the interest further of the Fed. Still, the interest rate would likely stay unchanged for some time as the economy heads for soft landing. Interest rate conditions remains supportive to the stock market.

### **EU: Slightly positive**

Although European markets declined sharply early in the month, they had recovered very well. Germany had the best performance as DAX went up by 3.00%. CAC gained 2.14% and FTSE 100 rose 2.21%. Job market conditions continued to improve. Unemployment in both Germany and France declined again in Feb. Moreover, retail sales in Germany rose slightly by 0.9% in February after dropping 4.3% in January. Continued strength in job market and stabilization of retail sales suggests that European economy is still humming on.

### **Japan: Neutral**

The equities market performance lagged behind other developed market. NIKKEI declined

bounded and failed to break below 115 to the dollar. It ended the month at around 117 Yen per dollar. Worries about unwinding of carry trade faded with retreat of Japanese Yen.

#### **China: Slightly positive**

HSCEI made the first monthly gain in 2007 and gone up by 3.58%. Earnings report for the large Chinese enterprises e.g. China Mobile, Bank of China, Bank of Communications ...etc were satisfactory in general. Strong profits growth and adjustment in share prices had driven down valuation to more reasonable level. Market interests and buying in those stocks picked up during the month.

#### **Hong Kong: Slightly positive**

HSI moved up by 0.76%. The strength in Chinese enterprises helped the Hong Kong market again. Going forward, the conditions shall likely continue.

#### **Emerging Markets: Slightly positive**

Malaysian market posted strong gains in March as KLSE Composite index rose 4.21%. The market had gone up 13.7% so far in 2007. Malaysian government lifted the 30% property gain tax and market benefited from strong demand for palm oil as Malaysia is the world largest palm oil exporter. Together with Malaysia, the more developed neighbor Singapore also did well. Singapore was riding on a strong high-end property market a trim in corporate profit tax by 2% to 18% in 2008.

#### **Bonds: Slightly positive**

US Treasuries yield went up in the month, it had once dipped to 4.50% level in the month but rose to 4.65% by month end. Together with recovery in stock markets, it indicated that investors had put their money back to risky assets. As risk appetite of investors rise again, we would prefer emerging market sovereign debt to high grade bonds.

#### **Commodities: Slightly positive**

Crude oil prices jumped up on geopolitical risk in Iran. It had topped USD 65/barrel on 30 Mar, up 6.70% from last month. However, the political conditions changed so quick and dramatic and the gains could easily gone. For gold, it had little change over the month and down slightly by 0.93%.

#### **Hedge funds: Neutral**

Hedge funds made positive return in February, HFRI Fund Weighted Composite Index went up 0.66%. The top 3 sub indices were HFRI Merger Arbitrage Index, HFRI Distressed Securities Index and HFRI Emerging Market Index. Emerging Market was the top performer in 2006, still, arbitrage strategies and distressed securities took over in the first 2 months of 2007 as equities market turned around by end of February. It demonstrated that arbitrage strategies and distressed securities could better hedge against risk of general equities market than emerging market strategies.

#### **Advices for investors**

Equities market stabilized and some of them even bounced back strongly. The impact of strength in Japanese Yen and sub-prime mortgage problem are already reflected in the market. Thereby, we are cautiously optimistic about equities market performance and suggest investors to prepare to rebalance their portfolio towards equities market.

For more aggressive investors, Asian markets and emerging market bonds would be potential investments.

For conservative investors, you may consider add to the holdings in European equities to benefit from continued strength in EU economy.

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