



May 2007

Upbeat profits reports and M&A driven up the market

Equities market extended the recovery since Mid March and shoot up strongly in April. Strong corporate profits and M&A activities had been the catalyst for the renewed rally. US, EU, Japan and other emerging markets moved up in tandem. Liquidity is still plenty and the equities market shall get support from it.

Development of underlying economy generally confirmed market expectation. US GDP growth slowed to 1.3% in 1Q2007, while EU was still powering on with strong business confidence and improving domestic demand. It met the estimates for global economy to withstand slower US growth. Without surprise, the market had been very calm to the US economy data.

Overall, we believe the equities market shall continue to benefit from strong liquidity conditions and M&A deals.

Among the markets, our favourite are Europe and Asia. We would also like to pinpoint the Korean market. The market is relatively cheap compare to other Asian markets with P/E ratio at about 13 times compare to 15-18 of Hong Kong, Taiwan and Singapore. Moreover, we have seen the market picking up strongly in recent months.

US: Neutral

Equities market moved up during the month. DJIA rose 5.74%, S&P500 went up 4.33% and NASDAQ gained 4.29%. April was the high season for 1Q earnings report. The results were satisfactory. Up to 28 April, 22 of all 30 companies in DJIA had released their results. Among them, 16 companies, i.e. 73% of them had been able to beat market expectations. Upbeat earnings helped US equities market to jump. Still, 1Q GDP data suggested that US economy continued on the path to soft landing. Overall growth rate was 1.3%, significantly lower than 1.8% last quarter. Still, consumer spending held up and registered a 3.8% growth. Strong spending had its support on tight labour market and rising wages. Since the slowdown in overall economy was expected and consumptions hold up well, the market reaction to the GDP report was calm.

EU: Slightly positive

European market headed up also. DAX made 7.11%, CAC up 5.78% and FTSE gained 2.40%. ZEW survey shown that both business confidence and current conditions improved in Germany. It was the second consecutive months for business confidence improved in Germany. For other European countries, France and Italy also reported good numbers for business confidence. Besides good business conditions, equities market was also helped by M&A activities. An example is the bidding war for ABN AMRO between Barclays and Royal Bank of Scotland. With good economic background and ample liquidity, we believe European markets shall continue to lead among developed markets.

Japan: Neutral

NIKKEI was again weaker than its counterparts. The index gained a mere 0.65%. Weakness in Japanese Yen resumed and it fell back to 120 against the US dollar. It suggested that some carry trade had resumed. On the economy side, sluggish domestic consumptions and weak income growth were clouding the economic recovery of Japan.

China: Positive

HSCEI went up by 4.36% in April. Stock prices of Chinese enterprises listed in Hong Kong are well justified with strong earnings growth. However, investors were wary of more austerity measures to be implemented as China reported 11.1% GDP growth in 1Q2007. It has hindered the rise in share prices

Hong Kong: Slightly positive

HSI gained 3.66%. Hong Kong market was just in line with general Asian markets. Still, it faced the worries about A share bubble and additional austerity measures to be implemented and the index was not able to break the historical record in April.

Emerging Markets: Slightly Positive

In general, most of the markets followed the strong run in US and did well. BOVESPA made 6.88% and SEXSEN gained 6.12%, while RTS was flat. The market that got the attention was Turkey. The Turkish market was clouded by struggle between the military and a major political party, AK Party to remove Abdullah Gul from running for presidency. The reason behind was that the military viewed Abdullah Gul Islamic tie meant that nomination of him as president would be a violation to the secularism tradition of the country. The struggle had triggered slumps in both equities market and currencies. Still, Abdullah Gul withdrawn from the campaign and the market stabilized a bit lately.

Bonds: Slightly positive

Interest rate outlook had no significant change in the month. The current conditions for US and Japan to hold interest rate while EU likely continues to lift is unchanged. During the month, Mr. Raphael Kassin left the position as fund manager for ABN AMRO Global Emerging Market Bond Fund. It has triggered a small sell off in Argentine and Venezuelan bonds, but the turmoil was short lived.

Commodities: Slightly positive

Consolidation continued. Gold moved up by 2.59% in the month and crude oil generally flat.

Hedge funds: Neutral

Hedge funds brought about positive return again for March. HFRI Emerging Market Total Return (Index) stayed on top with 2.17% gains. HFRI Event Driven Index made 1.26% and HFRI Equity Hedge Index followed with 1.09% upside.

Advices for investors

Equities market restored the rally. Ample Liquidity and buoyant M&A activities shall continue to drive the market. However, the European and US market jumped between 5-7% in April, this kind of rally is not likely sustainable and the rise shall likely slow down.

For aggressive investors, Asian market is recommended. Korea is a particularly attractive market by valuation measures.

For defensive investors, European market is again the choice and we do expect the good fundamentals to support European markets.

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*Arcadia Financial Services (Asia) Ltd
Arcadia Asset Management (Asia) Ltd
1402-1403, Tower 1, Times Square, Causeway Bay, Hong Kong
Tel: (852) 2114 8488 Fax: (852) 2111 0777*