Week in View

Market Review

Wall Street experienced a mixed week, before a strong rebound on Friday saw the major equity indices record overall gains to narrowly maintain its positive run of weekly performance that began at the end of March. Rising oil prices, weak retail-sales figures and disappointing economic news resulted in the sharpest one-day sell-off in two months on Thursday, before Friday's rebound restored some order; **the Dow Jones ended the week up 0.5%**, while the S&P 500 was flat.

Market Movements

Markets	11 May 2007	% Change
S&P 500	1505.85	0.02
NASDAQ	2562.22	-0.39
TSE 1st Section	1723.09	1.11
FTSE/S&P World Europe	448.58	-0.72
FTSE All-Share	3409.93	-0.70
DAX	7479.34	-0.50
Hang Seng	20468.21	-1.79
Citi World Govt Bond Index All Mats	490.74	-0.02
Bonds*	**11 May 2007**	**4 May 2007**
US	4.67	4.64
Japan	1.65	1.65
Germany	4.20	4.21
UK	5.08	5.11
Currencies	**11 May 2007**	**4 May 2007**
USD/Euro	1.35	1.36
GBP/Euro	0.68	0.68
JPY/USD	120.11	119.91
USD/GBP	1.98	2.00
JPY/GBP	238.10	239.31
Commodities	**11 May 2007**	**% Change**
Oil (Brent Crude)	65.59	1.00
Commodity Futures (CRB) Index	405.71	-0.07
Gold	672.35	-2.59

A poor Thursday on Wall Street resulted in a disappointing end to the week in Japan, as stocks took their lead from triple-digit losses in the US. However, strong **gains for Japanese shares** earlier, on Monday, (as share prices caught up with foreign market movements while Japan was closed for Golden Week) saw indices among the market leaders.

European bourses ended the week lower, but the strong final session in the US and continued M&A speculation in the banking sector (specifically Italy's Capitalia) ensured that losses were tempered towards the end of the week. By close of play on Friday, the German DAX had lost 0.5%, while the French CAC 40 was down 0.3%.

UK interest rates reached their highest level in six years after **the Bank of England raised the cost of borrowing** by 0.25%, to 5.5%, on Thursday, as anticipated. The accompanying narrative confirmed that output growth and business investment had remained firm and that the medium-term inflation outlook remained "…tilted to the upside".

Asian equities fell modestly last week, despite robust performance taking the Chinese and Korean markets to new record highs. Offsetting the strong performance, Hong Kong's Hang Seng fell 1.8%, while Thailand, Singapore and Indonesia also ended lower.

Latin American markets were mixed over the week, with Brazil and Mexico slightly higher, and Argentina 1.6% lower. In Emerging Europe, **Russia's RTS index ended down** 4.4%.

The US Treasury market was in friendly mood early in the week, with bond yields falling despite a short supply of data. A widening of the US trade balance, to over US$60bn, and the potential negative impact on GDP prompted something of a rally towards the end of the week, and resulted in **lower bond yields**.

Global economic data had little impact on the currency markets, with few surprises and any interest-rate decisions already well priced into the market. Overall during the week, **the US dollar was stronger against the euro and sterling**, while the yen gained versus the dollar.

Following concerns over supply disruptions in Nigeria, **oil prices were supported** by fears that petroleum inventories in the developed world would suffer unless OPEC raised output levels. US petrol prices also saw gains as the year headed towards the US summer "driving season", when demand is at its highest. Meanwhile, **gold bullion prices ended the week lower**, as the dollar rose against most currencies.

Comment

Outlook for profits growth

Following the exceptional profits recovery of recent years, it was inevitable that some moderation from high growth rates would develop, largely because profit margins could not expand further.

With this scenario now underway, the consensus for profits growth is conservative, with the market braced for a slowdown, however an imminent hard landing for profits remains improbable.

We believe that slower profits growth will be reflected in lower, but still positive, returns from equities and higher equity market volatility, but we do not see it as the cause of sustained equity market weakness.