BREWIN DOLPHIN

Market Strategy

INVESTMENT RESEARCH

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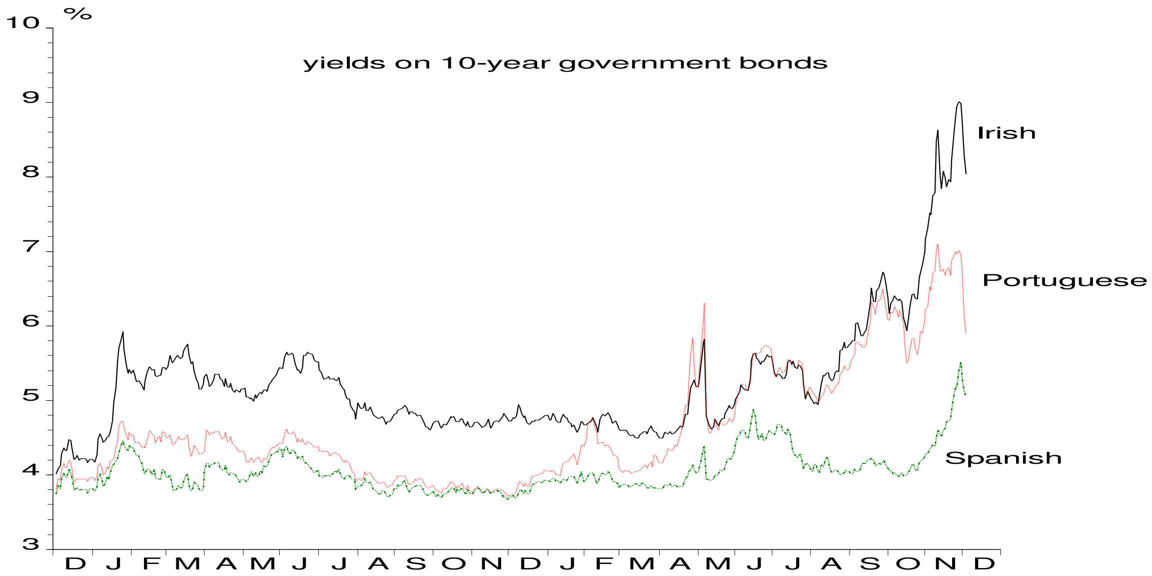
A message that can't be lost on bond and equity markets.



Source: DATASTREAM

Resolution and conviction behind the policy effort to stabilize the eurozone's sovereign funding crisis are being clearly demonstrated. For a start, EU policy is now focusing on increasing the size of the European Financial Stability Facility and in today's Financial Times there is a discussion on E-bonds and the prospect of a European Debt Agency as the issuing agent.

Also, picking up on last week, the ECB's extension to April in its provision for liquidity was accompanied by a warning from Mr Trichet about how its bond buying operation would meet fire with fire in being 'commensurate with what we (i.e., the ECB) observe'. Investors felt the heat! In buying Irish and Portuguese sovereign debt, the ECB's contagion antidote left yields on Spanish and Italian debt lower too.

Confidence in the outlook for the US is improving and consensus expectations for GDP growth in 2011 are rising. But then there was Friday's disappointing news on jobs, enough to dissuade anyone thinking the Fed's QE will be cut short. It also left Mr Bernanke to defend monetary policy on the CBS program '60 Minutes'. He disagreed QE would be inflationary and indicated that, if need be, the Fed would not stop at $600 billion.

In China the authorities have indicated that, while they intend to tighten monetary policy, switching 'from moderately loose' to 'prudent', they also intend to maintain an ambitiously active fiscal policy focusing on investment spending as a step towards transforming the pace of development in the domestic economy, the very agenda being set for the new 5-year plan to be introduced next year.

Bond and equity markets can be in little doubt about the message. Policy makers world wide are displaying their determination and commitment to ensuring a stable and sustained recovery. This can only point one way for yields in the major bond markets and it suggests a firm underlying tone for equity markets, which probably accounts for their spirited action.

IMPORTANT NOTES