



Inspired, involved, in control

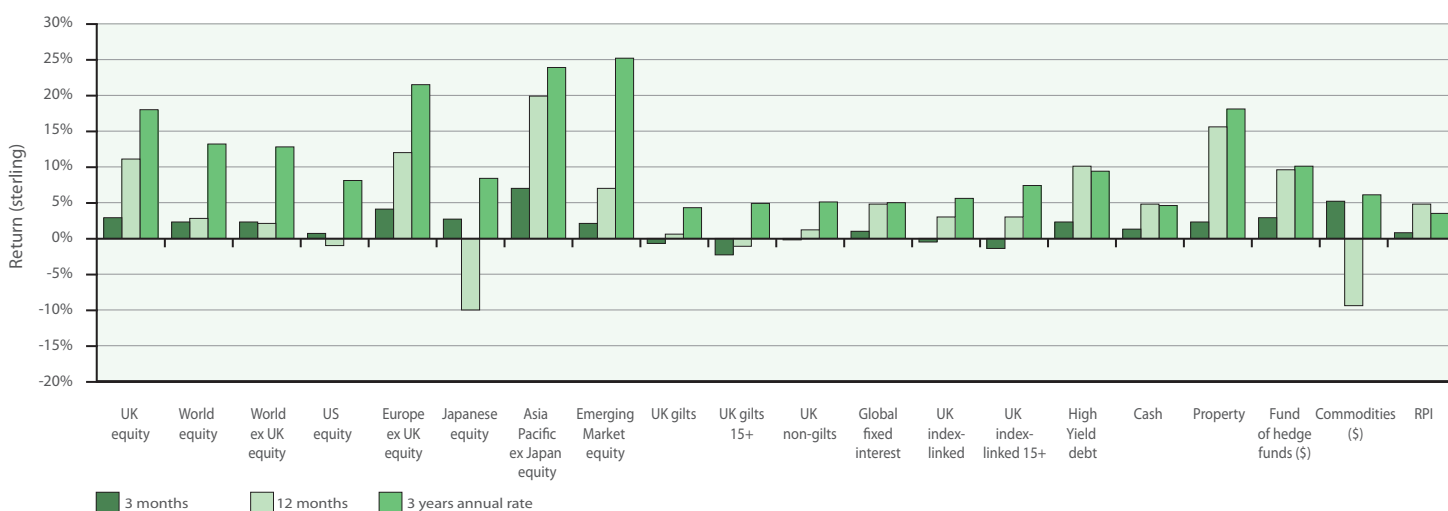
informed

Investment market newsletter

May 2007

Review of investment markets for the 12 months to 31 March 2007

Total returns to 31 March 2007



World equity markets performed moderately over the first quarter (three months) of 2007 (despite a fall in February) following good performance in 2006. The UK market ended the first quarter almost 3% higher despite rising inflation. In the bond markets British government bonds fell over the quarter (as they did during the last quarter of 2006) resulting in a negative return for some bonds over the 12-month period.

The Bank of England surprised many by raising interest rates in January, earlier than expected. The rise, to 5.25%, resulted largely from inflation being at its highest level for 10 years (around 3%).

Equity markets

World equity markets finished 2.2% higher over the quarter although they were volatile (rose and fell steeply). The major equity markets suffered a sharp fall in February from which they recovered. The Europe and Asia Pacific regions (excluding Japan) led the way with returns of 12% and 19.9% over the year respectively. Again, Japan was the worst-performing region, returning -10% over the 12-month period.

Bond markets

The performance of bond markets was mixed over the 12 months. Government bonds returned 0.6% over 12 months while long-dated government bonds showed a negative return. Global bonds and UK index-linked bonds performed better, with returns of more than 3%.

Other

The number and size of private equity buyouts is increasing, supported by the low costs of debt and high corporate profits.

Hedge funds have also had a good start in 2007, with those taking advantage of company mergers benefiting from this private-equity boom.

