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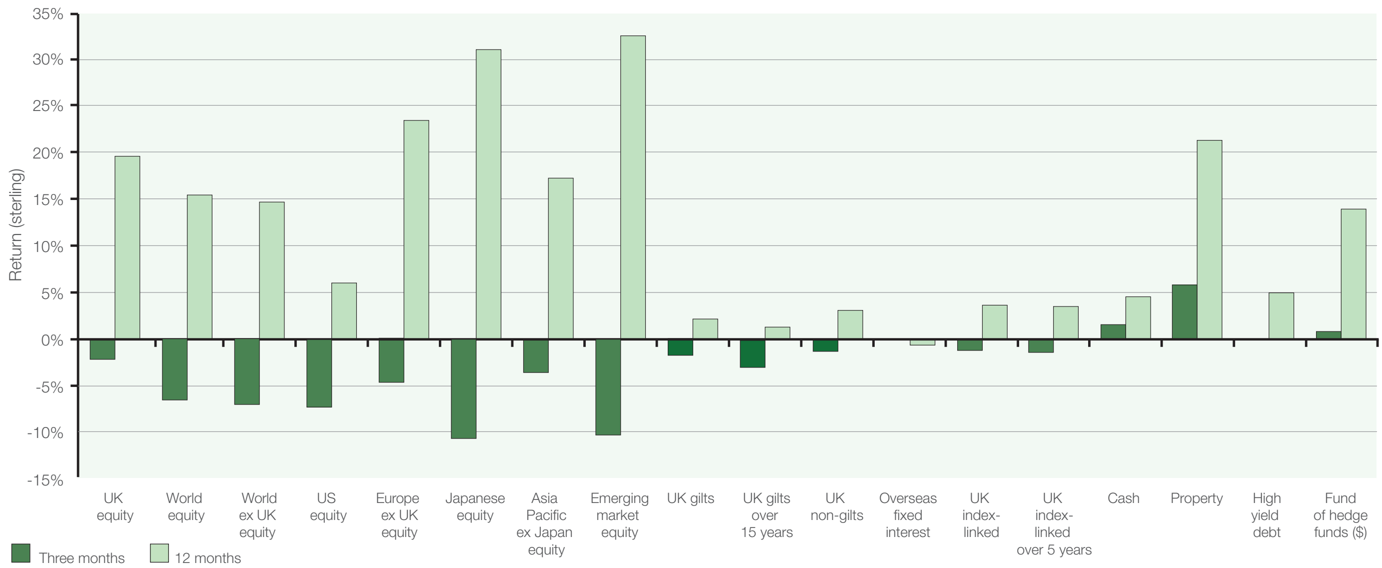
Investment market newsletter
June 2006

Review of investment markets for the 12 months to 30 June 2006

Total returns to 30 June 2006



Equity markets started to decline in May after a strong performance in 2005 and in the early part of 2006. The bond markets were mixed and the decline in the prices of many commodities (metals, oil and so on), including gold, suggested that inflation may not be as severe as initially feared. Inflation rose from 2% in April to 2.2% in May.

Pressure on interest rates will rise in the world's major economies as growth has strengthened and inflation has risen. The European Central Bank and US Federal Reserve both raised rates in June 2006, and rates are likely to rise in Japan. UK rates have not changed since August 2005, when they were 4.5%, but financial markets expect a small rise by the end of 2006.

Equity markets

After showing a good performance in 2005 and the early part of 2006, equity markets started declining in May. This was prompted by fears of higher inflation and interest rates, which made investors a little wary. All equity markets around the world suffered, with smaller companies being worst hit. Over the year, the best-performing regions were Europe, Japan and emerging markets (countries such as China, India and Brazil which have a low to middle incomes compared to the rest of the world), which all returned over 20%. The UK market (as measured by the FTSE All-Share index) returned 19.7%. The worst-performing market was the US, which returned 5.8% over the 12-month period to 31 March 2006.

Bond markets

The bond markets were mixed. The mainstream UK bond classes produced negative returns over the three months to 31 June 2006, but were generally positive over the 12 months to the same date. Index-linked bonds (bonds linked to inflation) were the best performers over the year.

Other

Property managers are tending to invest more in London offices ahead of a predicted rental growth in that region. However, the performance of UK commercial property is at an all-time low.

After a strong performance in the first four months of 2006, most hedge funds (funds which try to produce specific target returns by taking advantage of investment markets which are not performing well) came under pressure during May and June when market conditions were more difficult.