Weekly Stock Market Report

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US

Greek woes overshadow brighter economic news

- Political tension in Greece contributed to a 1.7% decline for Dow Jones last week, the index's sharpest weekly fall in 2012. The broader S&P 500 lost 1.1%, while the tech-biased NASDAQ was down 0.8%.

- Concerns over Europe overshadowed an encouraging batch of US economic data. Following the previous week's disappointing payrolls report, which showed that significantly fewer jobs were created in April than had been expected, last week brought better news on employment.

- Initial jobless claims (the number of Americans signing on for unemployment benefits for the first time) fell by 1,000 to 367,000 in the week to 5 May. The four-week moving average - a less volatile measure - dropped by 5,000, suggesting conditions in the labour market continue to improve, albeit gradually.

- Unemployment at a three-year low and signs of stabilisation in the housing market are contributing to a recovery in consumer confidence. The Thomson Reuters/University of Michigan index of consumer sentiment unexpectedly rose to the highest level in four years in May.

- The future expectations component of the index, which serves as a better gauge of future spending, slipped back slightly from April's near three-year high, but consumers' assessment of current economic conditions improved significantly.

- Recovering consumption helped to drive a jump in US imports to a record high in March. The higher cost of fuel contributed to the increase, but the largest driver was a rise in demand for non-petroleum products such as pharmaceuticals, televisions, cars and computers.

- Exports also hit a record, with sales to the European Union reaching a new high despite the ongoing sovereign debt crisis in the eurozone.

EUROPE

Greek political deadlock raises eurozone exit fears

- The MSCI Europe Index suffered on political uncertainty last week, but rebounded towards the end of the week to end just 0.8% lower.

- Among the major eurozone markets, France's CAC 40 was the worst performer, dropping 1.0%. Spain's IBEX was up 1.7%, while Italy's FTSE MIB rose 0.9% and the German DAX returned 0.3%. Outside the eurozone, the UK's FTSE 100 lost 1.4% and the Swiss SPI was down 1.7%.

- The results of elections in France and Greece on 6 May suggested popular support for austerity is waning in the eurozone. In the French presidential election, the socialist candidate, Francois Hollande, beat incumbent Nicolas Sarkozy on a commitment to renegotiate Europe's fiscal compact to include growth measures.

- In Greece, the two main parties, the socialist Pasok and the conservative New Democracy Party, failed to secure enough votes to form a unity government, with the majority of voters backing smaller parties committed to renegotiating the terms of Greece's bailout or withdrawing from the eurozone altogether.

- Political deadlock in Greece was a growing source of concern throughout the week, with no party leader yet succeeding in forming a coalition government. Expectations are growing that a new election will have to be held next month, but investors fear that the rising popularity of the anti-bailout Syriza party means that it will receive the largest share of the votes in any further ballot.

- The Syriza party leader, Alexis Tsipras, has suggested that Greece should reject the terms of its bailout, take over the banks and impose a moratorium on debt repayments. It is conceivable that pressure from the European Union and a realisation of the potential economic consequences for Greece could lead a new government to choose a less drastic course of action - particularly since polls suggest 78% of Greeks still want to keep the euro.

- However, the present uncertainty may lead Greek citizens to withdraw their euros from the banking system as a pre-emptive measure. If a bank run did begin to materialise, it is impossible to know what support Greece would receive from the European Central Bank, given the doubt over the future of the bailout agreement.

- News that Greece would still receive a scheduled EUR 5.2 billion from the eurozone bailout fund, despite the political turmoil, provided a boost to sentiment towards the end of the week. Investors also responded positively to plans from the Spanish government to provide a new round of support to Spain's banking sector, which has been hit by rising levels of bad debt on property loans.

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- Spain's government will take a 45% stake in troubled lender Bankia, the country's third-largest bank in terms of asset size. Spanish banks will also be required to raise an additional EUR 30 billion in capital, either by issuing shares or by borrowing from the government, and to segregate distressed property loans from the rest of their balance sheets. The government will hire independent auditors to review the lending of all Spain's banks to identify other potential sources of trouble.

PACIFIC

Yen strength weighs on Japan

- The MSCI Pacific Index fell 3.9% last week as political tensions in the eurozone and weak Chinese economic data took their toll on global investor sentiment.

- Japan's TOPIX lost 4.4%. Despite recent interventions by the Bank of Japan, the yen rose further against the US dollar and the euro in the week, adding to concerns about the negative impact of currency strength on Japan's exporters.

- Hong Kong's Hang Seng was the biggest loser of the major indices in the region, falling 5.3% on weaker-than-expected Chinese data, which stoked fears of a sharp slowdown in Asia's biggest economy.

- Singapore's Straits Times dropped 3.6% and fell to a three-month low in the week as local blue chip companies reported disappointing first-quarter earnings.

- Korea's KOSPI fell 3.6%. The Bank of Korea held borrowing costs steady for an 11th consecutive month after inflation eased to a 21-month low of 2.5% in April.

- In Australia, the All Ordinaries fell 2.6%, despite some positive domestic data. The unemployment rate fell from 5.2% in March to 4.9% in April – the lowest level since December 2008.

EMERGING MARKETS

Chinese data disappoints

- Emerging markets underperformed their developed counterparts last week as Chinese data indicated a sharp slowdown in economic growth. The MSCI Emerging Markets Index fell 3.1%, versus a 1.5% decline for the MSCI World.

- The MSCI China tumbled 6.2%. Imports increased only 0.3% year on year (y/y) in April, reflecting a slowdown in construction and property investments, and fuelling concerns about weakening domestic demand. At the same time, exports grew at the slowest pace in three years, hurt by soft demand from Europe and other emerging markets.

- Industrial production growth was also lower than expected in April, while retail sales disappointed. However, inflation data provided some relief for investors, with consumer price inflation falling to 3.4% y/y in April from 3.6% in March, raising expectations for monetary policy easing by the central bank in the near term.

- India's SENSEX dropped 3.2%. The deputy governor of the Reserve Bank of India, Subir Gokarn, said that current inflation risks limit the central bank's ability to cut interest rates further, following April's half-a-percentage-point reduction. Central bank intervention to support the falling rupee also weighed on investor sentiment.

- Russia's RTS lost 2.2%. Vladimir Putin was reinstated as Russia's president for a third term last week, while police continued to crack down on protesters who believe the results of the general election were rigged.

- Elsewhere in eastern Europe, Hungary's BUX dropped 2.9%. Despite an unexpected increase in industrial output in March, Hungary's government cuts its 2012 growth forecast for the country to 0.1% from 0.5%. Poland's WIG and the Czech PX 50 fell 1.5% and 1.0%, respectively.

- In Latin America, Brazil's Bovespa fell 2.3%. Inflation in Brazil surged higher, with the IPCA consumer price index rising 0.64% in April, compared with a 0.21% rise in March, reducing the likelihood of further interest rate cuts in the near term. Mexico's Bolsa lost 1.3% over the week as a whole, but reached an all-time high during the week.

Source for information: J.P. Morgan Asset Management, Bloomberg, FactSet, Financial Times.

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