

European market update

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Markets in Europe have had a rocky few weeks as economic data across the globe has shown signs of weakness and led to fears of slowing economic growth.

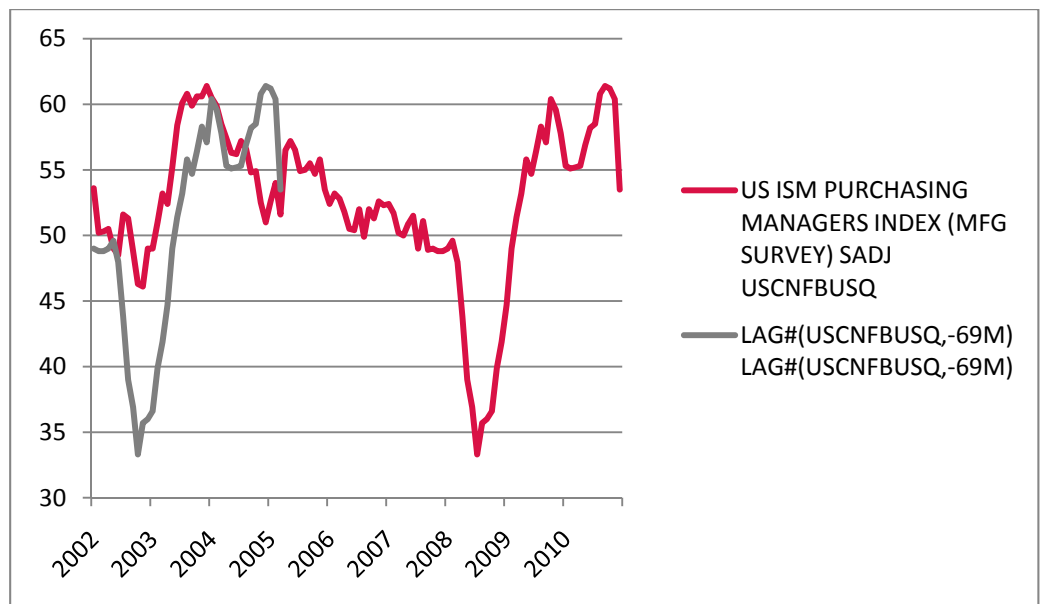
Whether it is jobs data, PMI data or other leading indicators of economic growth, all have seen readings lower than expected. There were however several factors which would have had an impact, such as higher fuel prices, poor weather conditions and most notably the Japanese disaster and its repercussions on company supply chains. My view has been, and still is, that this data would normally slow at this stage in the economic cycle, after the substantial rise that we saw in the earlier stage. The graph below shows the closely followed US ISM leading indicator with the data lagged back to overlay the same stage in the last cycle. This shows a similar pattern to the past.

My view is that as the year progresses, the negative impact from Japan will diminish as will the impact from fuel prices, which have moderated from the recent peaks at the end of April. I believe that when companies report their second quarter results they will have the confidence to provide full year guidance, which many didn't at the first quarter stage when the impact of Japan was still being assessed.

Once fears on a slowing economy subside, valuation support should underpin European equity markets.

ISM leading indicator from 15/06/02 to 15/06/11 (monthly)

Readings above 50 indicate expansion



Source: DataStream

Source: rlam as at 13th June 2011 unless otherwise stated.

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