

## DecisionMakers Financial Services Group Limited is pleased to bring you this summary of investment markets over the past month, provided courtesy of ING (NZ) Limited.

August 2010

### Key Market Developments

Global equity markets recovered some lost ground in July with better than expected corporate earnings results offsetting a still weak flow of economic data out of the US. The release of the EU's bank stress tests reduced risk premiums. However, the rally in bond markets showed bond investors held an increasingly dismal outlook for global growth and low inflation. In local currency terms the MSCI World Index gained 5.8% in July, while the JP Morgan Global Government Bond index gained 0.5%.

Despite doubts about the stringency of the European Union's bank stress tests, investors were relieved that only seven out of the 91 lenders had failed. Still, debt capital markets still not fully functional, with banks in peripheral European countries dependent on the ECB for a bulk of their funding. Until banks are able to consistently access market funding, on economic terms, they will not be able to meaningfully contribute to the economic recovery in those regions.

By the end of July, 75% of the S&P500 companies that had reported earnings beat expectations. The average annual EPS growth rate exceeded 50% (partly due to a recovery in bank earnings), approximately 10% higher than analysts had expected at the start of the quarter. As well as positive earnings surprises, a number of companies gave more optimistic outlooks. International freight company United Parcel Service and shipping company FedEx Corp, both considered harbingers for global growth, boosted their profit forecasts for the full year.

Economists have trimmed forecasts for the US economic expansion as leading indicators in the US have softened. According to a Bloomberg survey, consensus forecasts for GDP are at a 3.1% pace this year, 2.9% next year and 3% in 2012, although only marginally lower than forecasts just three months ago of 3.2%, 3.1% and 3.1% respectively. Either the market has overreacted to indications of a slower pace of recovery, or economic forecasts are still too optimistic. It is clear that economic indicators have lost momentum and a slowdown is underway, but this is not yet serious enough to point to a renewed recession or "double-dip".

In August, the FOMC admitted that "the pace of economic recovery is likely to be more modest in the near term than had been anticipated." To ensure monetary conditions remain

accommodative the Fed will maintain the holdings of securities purchased through the quantitative easing programme. This will be done by reinvesting principal payments from its mortgage holdings into long-term Treasury securities. The announcement is unlikely to have any significant effect on growth, but has contributed to lower bond yields.

New Zealand's unemployment rate jumped to 6.8% from 6% in the second quarter, driving down the currency and adding to the case for the Reserve Bank to pause interest-rate increases later this year. Even though the data is more volatile than the real economy, partly reversing the fall to 6% in the first quarter from 7.1% in the fourth quarter last year, the release confirms that domestic demand has been subdued and indicates that the economy may not expand as quickly as the Reserve Bank had initially expected.

### Regional Economic Summary

#### United States

- The economy in the US grew at a slower-than-forecast 2.4% annual rate in the second quarter. Growth was supported by increases in inventories, home construction, business investment and government spending that may not be matched this quarter. Federal Reserve Chairman Ben S. Bernanke reiterated that central bankers stand ready to take additional action if the world's largest economy "doesn't continue to improve".
- While companies in the US added workers in July for a seventh straight month, the limited growth in payrolls suggests the recovery in the labour market will be slow to take hold. Private payrolls that exclude government agencies rose by 71,000 after a June gain of 31,000, however the result was less than economists' forecasts of 90,000.
- The cost of living in the US, excluding food and energy prices, climbed in June more than forecast, easing concern that a slowdown in growth will spur deflation. The inflation report showed rents, the biggest component in CPI, stabilised, while the cost of clothing and used cars climbed.
- Confidence among US consumers fell in July to the lowest level since November. The lack of confidence may further restrain consumer spending, which accounts for 70% of the economy, and limit the pace of growth.
- Sales of US new homes rose 24% in June, more than forecast. This followed an unprecedented collapse the prior month, caused by the government's tax credit for new home buyers coming to an

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end. Even so, increasing foreclosures are swelling the number of unsold existing homes, putting downward pressure on prices.

- June data on durable goods showed business investment in the US picked up in the second quarter. Business investment remains the bright spot in an otherwise dull economic outlook.
- The Institute for Supply Management's index of non-manufacturing businesses rose to 54.3 from 53.8 in June, a pace faster than economists median forecast. The result eases the risk US economic growth will slacken in the second half of the year.

## Europe

- The euro-region economy is gathering strength even as governments from Spain to Greece step up budget-cutting measures to plug deficits.
- A weak Euro has helped lift exports and overall economic growth across the euro region. However, recent strength could limit gains going forward. The currency has appreciated 8.7% against the US dollar in the past two months.
- Growth in Europe's services and manufacturing industries accelerated in July, indicating the recovery can maintain its momentum.
- Another flat retail sales report in June showed European consumers remain reluctant to increase spending while the labour market remains weak. Unemployment held at 10% in June, the highest in almost 12 years.

## United Kingdom

- The UK economy grew almost twice as much as economists forecast in the second quarter, the fastest expansion in four years. A rebound in services, manufacturing and construction ignited the recovery.
- Gross domestic product rose 1.1% in the three months through June after increasing 0.3% in the previous quarter. Economists had expected a 0.6% gain.
- The Bank of England kept its bond buying plan in place and left its benchmark interest rate at a record low of 0.5%. The split among officials on the direction of policy widened in the past month.

## Japan

- Japan's unemployment unexpectedly rose for a fourth straight month and industrial production fell the most in more than a year, signalling the economic expansion is poised to slow.
- The lack of supportive data may make it tougher for new Prime Minister Naoto Kan to build support for his plans to rein in the government's budget deficit, previous attempts have ended up derailing recovery.
- The Bank of Japan may also come under increased pressure to step up monetary stimulus or to intervene as a rising yen threatens to contribute to further deflation.

## New Zealand

- New Zealand's economic data has been mixed over the last month. Business confidence has continued to ease, but still remains at elevated levels. The ANZ Commodity Price Index again fell and while still at healthy levels, is off recent highs.

- The Reserve Bank of New Zealand's July OCR review delivered another 25bp hike, but the accompanying text release was a lot more 'dovish' than the market was expecting, making further rate hikes anything but a certainty.

## China

- China's manufacturing grew at the slowest pace in 17 months in July as the government clamped down on property speculation and investment in energy-intensive and polluting factories.
- Economists expect authorities will step up spending on public housing and other public works to stabilise growth.

## Australia

- Governor Glenn Stevens kept the Reserve Bank of Australia's (RBA) benchmark rate unchanged for a third month. The RBA expects inflation to remain relatively contained, with weaker household and government spending expected to offset the stimulatory boost from mining.
- The RBA decision to leave rates unchanged may have helped consumer confidence to rise to its highest level since January. The report was in contrast with recent evidence that domestic demand is cooling, including a drop in business confidence, home-loan approvals and weaker retail sales.

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## At a glance as at 31 July 2010

### Indices

	Level	1-month% change	YTD% change	1-year% change	3-year ann.% change	52-week high	52-week low
Index close as at:	31-Jul-10	30-Jun-10	31-Dec-09	31-Jul-09	31-Jul-07		
MSCI World Index (G)	2684	5.8%	-1.4%	10.4%	-8.4%	3692	2903
<b>Asia Pacific</b>							
MSCI AC Asia ex Japan (G)	1013	4.7%	1.7%	11.6%	-0.4%	1246	854
NZSX50 (G) *	3035	2.1%	-6.1%	0.6%	-10.4%	3349	2929
ASX200 Accum.	31977	4.5%	-5.9%	10.1%	-5.8%	35346	29412
Nikkei 225	9537	1.6%	-9.6%	-7.9%	-17.9%	11408	9076
<b>Americas</b>							
Dow Jones	10466	7.1%	0.4%	14.1%	-7.5%	11258	9117
S&P500	1102	6.9%	-1.2%	11.6%	-8.9%	1220	979
Nasdaq	2255	6.9%	-0.6%	14.0%	-4.0%	2535	1930
<b>Europe</b>							
MSCI Europe (G)	4736	5.9%	-0.7%	13.7%	-7.8%	6325	4676
FTSE100	5258	6.9%	-2.9%	14.1%	-6.1%	5834	4610
France CAC	3643	5.8%	-7.4%	6.3%	-14.1%	4088	3288
Germany DAX	6148	3.1%	3.2%	15.3%	-6.8%	6387	5159
<b>Property</b>							
NZX Property (G)	1982	1.6%	-5.4%	3.8%	-7.0%	2154	1918
Aust LPTs (G)	19076	1.0%	-1.8%	18.8%	-22.3%	20538	16613
Int'l LPTs (USD) (G)	465	9.1%	4.8%	24.8%	-9.8%	707	500

Note: returns are in local currency, except where designated

\* Excludes imputation credits

(G) = Gross, all other indices are capital

### Currency

	Rate	1-month chge	YTD chge	1-year chge
AUD+	0.9039	6.8%	0.7%	8.7%
EUR+	1.3048	6.5%	-9.0%	-8.4%
GBP+	1.5695	4.9%	-2.8%	-6.0%
JPY+	86.5	2.4%	7.2%	8.6%

### Economic data

	GDP qtr on qtr	GDP yr on yr	CPI yr on yr	Unemployment rate
US	0.6/2.4 ann.	3.20	0.90	9.50
Japan	0.40	1.50	-1.00	5.30
Germany	0.20	1.60	0.60	7.60
Euro	0.20	0.60	1.60	10.00

### 10-year bonds

	Yield	1-month chge	1-year chge
Australia	5.20%	0.11%	-0.41%
Germany	2.67%	0.09%	-0.63%
NZ	5.33%	-0.01%	-0.42%
UK	3.33%	-0.03%	-0.48%

Source: Bloomberg

### Central bank target rates

	Rate
NZ	3.00%
US	0.25%
Japan	0.10%
Europe	1.00%

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# Monthly Sector Summary

As at 31 July 2010

## International shares

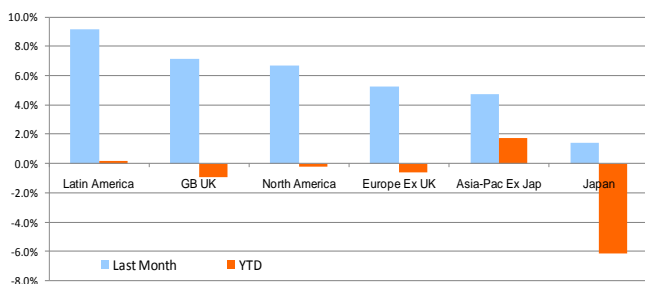
The MSCI World Index in local currency terms gained 5.8% for the month of July. Returns to unhedged New Zealand-based investors were up 2.7% for the month, as the NZ dollar strengthened against the MSCI weighted basket of currencies.

After the sharp sell-off over May and June, equity markets rebounded in July as concerns over the strength of European banks eased. European banking officials announced the results of 'stress tests' in July. Despite some criticism as to whether the tests were stringent enough, the result buoyed confidence and saw bank shares rally. Earnings reports in the US and Asia Pacific were also positive for equity markets. In the US, over three-quarters of the companies that had reported earnings by the end of July announced profits that beat analysts' expectations. A similar trend was evident in Asia where around one quarter of the 1,000 companies in the MSCI Asia Pacific Index reported results. More than half of these companies announced results that were ahead of analysts' estimates. As well as positive earnings surprises, a number of companies gave more optimistic outlooks. International freight company United Parcel Service and shipping company FedEx Corp, both considered harbingers for global growth, boosted their profit forecasts for the full year.

Mergers and acquisitions have been supportive of equities in recent months. US companies have been the targets of U\$397 billion in announced takeover offers so far this year, 11% more than at the same time last year.

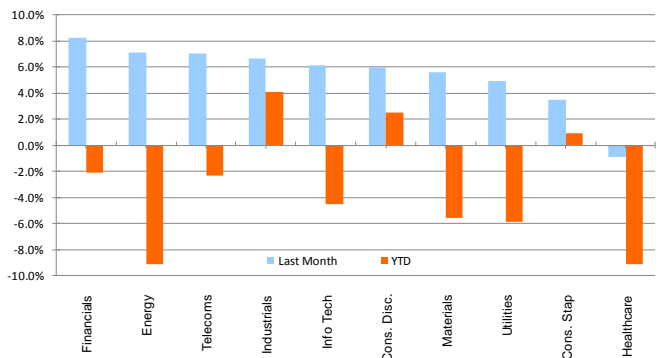
## International Regions

Latin America was the best performing region last month, erasing the losses for 2010 with a return of over 9%. The recovery in equity markets was broad based and the developed regions of Europe, United Kingdom and Europe all posted returns above 5% for July. Japan was again the laggard and has shown no sign of emerging from its multi-year bear market. Despite posting a modest gain for July the region is still down 6% on a year-to-date basis.



## International Sectors

July saw positive returns for all sectors with the exception of healthcare (-0.9%). Financials was the best performing sector, buoyed by the release of the stress tests on European banks. Only seven banks were deemed to have failed the stress tests, five of these being small, regional Spanish banks. The new banking regulation signed into law in the US was also less restrictive than initially expected. The energy sector also had a strong month. The shares of much-maligned energy company BP rallied 33% for the month on speculation Middle East sovereign wealth funds may be interested in investing in the company.



## New Zealand Shares

The New Zealand sharemarket rose 2.1% during July, erasing most of June's fall, but not managing to keep up with international markets which gained almost 6% over the month in local currency terms. Equity markets around the globe rebounded in July as concerns over the strength of European banks eased.

Domestic economic data released during the month continued to print on the weaker side. The NZIER Quarterly Survey of Business Opinion reported 16% of businesses claimed a decline in profitability. Retail sales were down 0.2%, month-on-month, seasonally adjusted, lending further weight to the tough job retailers are facing at the moment. The CPI inflation number for the June quarter was also subdued with the 0.3% reading coming in below consensus expectations.

As was widely expected, the Reserve Bank of New Zealand raised the Official Cash Rate by another 0.25% to 3.00%, but the accompanying statement was slightly more dovish than anticipated. The Bank acknowledged that economic growth was likely to be weaker than originally anticipated, but emphasised that it was "appropriate to continue to reduce the extraordinary level of support implemented during the 2008/09 recession".

Early in the month, profit upgrades were announced by Restaurant Brands and Skellerup Holdings. Restaurant Brands continued to benefit from its store upgrade programme while Skellerup upgraded its earnings guidance after repositioning product in the market place. On the downside, Telecom had to drop its profit guidance for

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FY10 and FY11 due to impending tax changes. Towards the end of the month, Telecom finally announced the sale of its AAPT consumer retail division and Ryman announced its first foray into the Australian market.

### Australian Shares

The Australian equity market (S&P/ASX200 Accumulation Index) added 4.5% for the month, reversing its recent downward trend and delivering the best monthly return since March 2010. The positive tone for the market was helped by positive US earning results and easing credit markets on the back of adequate results from European Bank stress tests. Only 7 of 91 banks examined were shown to require additional capital.

The Reserve Bank of Australia remained on the sidelines, leaving the cash rate unchanged in July, citing uncertainty in global markets and the pending release of Q2 CPI (which did prove weaker than expectations). The economic signals were otherwise strong domestically, with strong employment growth and consumer confidence. In the US the economic data was generally weaker, while Chinese GDP 'moderated' to 10.3% year-on-year, as expected.

The strongest sectors over the month were Banks (+8.8%) following the stress tests and Resources (+4.6%) on the back of the new Mineral Resource Rent Tax (MRRT). The sector laggards were Information Technology (-4.0%) and Telcos (-0.5%). Information Technology moved lower as investors worried about the outlook for Computershare in the current volatile environment and with ongoing Australian dollar strength.

In the upgrade/downgrade stakes, Adelaide Brighton (cement manufacturing) and Macarthur Coal lifted expectations while IAG and QBE downgraded.

Prime Minister Julia Gillard announced the federal election for the 21 August 2010.

### International and domestic fixed interest

The New Zealand Government bond market returned 0.54% for the month, outperforming Cash which returned 0.26% over the same period. The NZX All-Swaps Index returned 0.91% for the month. Global bonds hedged into NZD returned 0.81% for the July month. Over 12 months the New Zealand Government bond market returned 7.93%, the Cash index 2.81% and the All-Swaps index 8.18%. Global bonds hedged into NZD returned 8.83% over the last year.

It was a relatively quiet time for global bonds over the month. Ten-year New Zealand Government bonds were mostly unchanged in July, with the 2021 Government bond falling just 1bp in yield to 5.325%. The 10-year Australian benchmark yield rose modestly, adding 11bp to 5.20%, while the US 10-year yield fell by 3bp and Germany's rose by 10bp. Mixed economic data kept NZ and US interest rates mostly unchanged, while stronger than expected

economic data out of Australia and Germany was responsible for the rise in yields from those regions.

The Reserve Bank of New Zealand's July OCR review delivered another 25bp hike, but the accompanying text release was a lot more 'dovish' than the market was expecting, making further rate hikes anything but a certainty. RBNZ commented on the slowing growth it was witnessing globally, but remained cognisant of the significant near-term inflation spike NZ is about to encounter in coming quarters.

Domestic NZ economic data has been mixed over the last month. Business confidence has continued to ease, but still remains at elevated levels. Inflation data to date remains subdued, albeit inflation is projected to rise above 5% over the next 12 months as the introduction of the Emissions Trading Scheme and October's GST rise impact domestic prices. The ANZ Commodity Price Index again fell and while still at healthy levels, is off recent highs. A strengthening NZD puts further downward pressure on prices in NZD terms.

The Federal Open Market Committee left its federal funds target range unchanged at 0-0.25%. US 2Q GDP was reported to have grown at a seasonally adjusted annualised rate of 2.4% (exp 2.5%), from a revised rate of 3.7% in Q1 (prev. 2.7%). June non-farm payrolls fell by 125k (exp -130k) as census hiring fell. The ISM manufacturing index for June signalled expansion but at a slower pace, posting 56.2 (exp 59.0) from 59.7 in May. The non-manufacturing index fell to 53.8 from 55.4 (exp 55.0). June CPI dipped by 0.1% (exp 0%) although core CPI posted its largest gain since October 2009, up 0.2% (exp 0.1%). Year-on-year CPI rose 1.1% and core CPI rose 0.9%.

Ninety-one institutions underwent an EU-wide stress test which assessed their capital position on the assumption of a shortfall in GDP and losses on sovereign debt. Only seven banks failed (five in Spain, one in Germany, one in Greece) with a total capital shortfall of approximately €3.5bn. While the process did meet with some criticism, credit spreads for the sector tightened over the month. Moody's decreased Portugal's credit rating by two notches to A1 and cut Ireland's credit rating to Aa2 from Aa1. Hungary sought access to the remainder of its €20bn loan package but failed to reach a deal with the IMF and EU.

The RBA kept rates on hold at 4.50% for the second month in a row. Australian Q2 CPI figures were much lower than expected with headline inflation coming in at 0.6% quarter-on-quarter (exp 1.0%) and core inflation at 0.5% quarter-on-quarter (exp 0.8%). This equates to a year-on-year core inflation rate of 2.7%, back within the RBA's 2-3% target range. Employment increased by another 45.9k in June which roughly equated to the rise in participation (45.7k). The increase comprised 40% full-time workers and 60% part-time workers, and the unemployment rate remained at 5.1%. Retail sales values rose just 0.2% month-on-month (exp 0.3%) in May after a 0.6% rise in April. Higher interest rates and abnormally wet weather appeared to contribute to the softness. In contrast, the Westpac

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Melbourne consumer confidence index spiked in July by 11.1% to 113.1, the largest rise in 13 months.

The Chinese economy's pace of growth moderated in 2Q10, with real GDP rising at 10.3% year-on-year (exp 10.5%) following 11.9% in 1Q. June CPI inflation was milder than expected at 2.9% year-on-year (exp 3.3%), compared to 3.1% in May, and PPI inflation also eased to 6.4% year-on-year in June (exp 6.8%) from 7.1% in May.

The Government Bond Fund marginally underperformed the index over the month. The fund's overall duration position was shorter than index as bond yields rallied modestly.

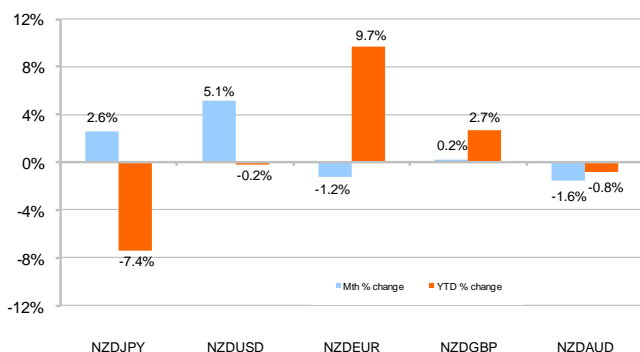
The High Grade Credit Fund outperformed the government bond index over the month. This was almost entirely due to swap spreads narrowing over the period. Performance was also assisted through the higher running yields from credit. Credit spreads versus swap were mostly unchanged over the month.

### Currency

From start to finish, it was pretty much one-way traffic in the NZD during July. Having been thumped below 0.6800 in the wake of intensifying global concerns, the NZD/USD recovered all the way back to hit six-month highs within a whisker of 0.7400. It was largely a story of global relief. Easing fears about a "double-dip" global recession afforded a clear easing in global risk aversion, and global growth-sensitive currencies like the AUD and NZD rebounded accordingly. The flagging USD only added to the NZD/USD's upward momentum.

Throughout the recent period of turbulence our view has been that risk-aversion-driven dips in the NZ dollar would be limited, assuming the fundamental underpinnings of improving global growth, strong terms of trade and supportive interest rate differentials remain in place.

Nonetheless at current price levels we find ourselves a little cautious on the prospect of further substantial gains. Not only are longer-run valuations stretched, but risks have developed around the strength of the economic recovery. We are also cautious that New Zealand's commodity export prices have peaked.



### New Zealand Listed Properties

The New Zealand listed property sector returned +1.62% (gross with imputation credits) in July, underperforming the broader market by 0.5%. The sector performance for the 12 months to the end of July was 4.84%, outperforming the broader equity market by 3.07%.

The best performing LPT during the month was Kiwi Income Property Trust (KIP) with 5.56%, followed by Kermadec Property Fund (KPF) with 4.44% and National Property Trust (NAP). KIP recovered strongly following the sell-off in the unit price in the prior couple of months in the run up to the conversion of the convertible notes. KIP was also boosted by the announcement that it had started buying back its stock, buying 100,000 units at \$0.94 during the month. NAP continued to outperform on excitement around the internalisation of its management, with NAP unit holders approving the proposal put to them by the board of the manager on the last day of the month. KPF also progressed its buyback, announcing late in the month that it had purchased 746,205 shares at an average share price of \$0.4428. There were no dividends paid during the month. AMP NZ Office Trust was the only LPT to end the month weaker, with a total return of -1.41%.

Specific news in the listed property sector was limited although the market was advised that an Investment Statement and Prospectus were registered with the Companies Office for DNZ. NZ shareholders of DNZ are being offered the right to subscribe on a pro rata basis for shares in the \$35m rights issue. The Board also has the discretion to offer up to another \$10m shares. The share price is due to be decided in a book build process on Tuesday the 10th August, settlement Friday the 13rd August and due to start trading Monday the 16th August.

The listed property sector continues to be impacted by the uncertainty surrounding the taxation treatment of depreciation of commercial building fit out following the Budget in May. A policy statement (setting out the current view and asking for submissions) is expected to be released by late August. While there continues to be downside risks to dividends from tax changes and higher portfolio vacancy levels, there is light at the end of the tunnel with regard to portfolio valuations. We believe that the sector represents reasonable value as long as there are no further significant changes to the treatment of the depreciation of fixtures and fit out. Our strategy is to remain defensively positioned in the better-quality property names, taking advantage of share price volatility to add to key holdings.

### Australian Listed Properties

The Australian property sector generated a gross return of 1.0% during July, underperforming the broader equity market (S&P/ASX200 Accumulation Index) by 3.5%. Real Estate Investment Trusts (REITs) were left behind as the broader market gained on renewed hope of an economic turnaround. However, on a 12-month view the sector significantly outperformed with an 18.8% return compared to 10.1% for the broader equity market.

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One potential stumbling block for global markets, the stress tests conducted by European bank regulators, passed without significant volatility and with it confidence started to return to markets later in the month. News flow in the property sector was a trickle in the pre-reporting season “blackout” period, although rumours started to emerge of potential mergers and acquisitions (M&A).

The best performing REITs during July were Centro (CNP) with 43.4%, followed by ING Industrial Fund (IIF) with 17.6% and Dexus (DXS) with 4.8%. CNP’s outperformance was a result of refinancing over US\$400m of debt due by the end of 2010 as well as a 12-month extension on a further US\$2.3bn. IIF was buoyed by the announcement that Goldman Group (GMG) was interested in becoming the manager should the management rights be sold as part of ING’s strategic review of its global real estate platform. Underperformers included Astro Japan Property (AJA) with -8.8%, Charter Hall Retail Trust (CQR) with -4.7% and GMG with -4.2%. AJA suffered on the back of its 5% fall in property valuations while GMG underperformed on concerns of how it would fund a purchase of IIF’s management contract or stake.

Despite recent volatility, the Australian economy is on a robust recovery path, with unemployment falling faster than expected. This bodes well for commercial property as employment growth is the key driver of demand for new space, particularly within the office sector. While interest rates have risen, we believe that the negative impact of rising interest rates will be more than offset by increasing demand for space and falling credit spreads. Improving sentiment and risk tolerance will refocus management on the need to grow earnings, which will create conditions for mergers and acquisitions to occur. Most of the sector is attractively priced and our strategy remains to look for opportunities to buy holdings which will benefit from a recovery in earnings and the expected wave of consolidation.

### International Property

Strong absolute returns were generated by property companies in virtually all major geographies. European property companies generated the highest total returns, based on perhaps temporary relief from the bank stress test results. Of note elsewhere was the performance of Singapore property companies (up nearly 11% on the back of strong 2Q10 GDP numbers) and United States REITs (up nearly 9% as 2Q10 earnings season has thus far been encouraging). On a relative basis, the NAV performance lagged the benchmark return as the result of timing issues related to fund pricing policy. Portfolio returns were otherwise modestly ahead of benchmark returns as positive stock selection was offset by allocation decisions. An underweight to Europe proved a drag for the month (although still a positive factor year-to-date), while stock selection marginally added to relative performance as US portfolio positions in companies owning lodging, office and mall properties outperformed for the month. We continue to be positioned with a positive bias to the North American and Asia-Pacific regions and a cautious stance towards property companies in Europe, which we expect to continue to lag despite the outperformance in July. By property type, we remain overweight sectors which stand to benefit from an economic

recovery, including the shorter lease length hotel and apartment sectors as well as certain office markets in the Asia-Pacific region. We remain underweight property types which conversely react more slowly to economic recovery, including healthcare and most office markets in North America and Europe. Our outlook remains predicated on the assumption of gradual but steady global economic growth, with the possible exception of Europe where we believe the prospect of a “double-dip” recession to be real.

The most significant financial news for the month was the result of the European bank stress tests, released on July 23, to which equity markets reacted positively despite criticism that the tests were not stringent enough. Only seven of the 91 banks tested failed. Still, the tests appeared to soothe investors, reassured by, if nothing else, the improved disclosure of the banks’ finances. Other factors also supported the position that European economic conditions may be better than once feared. Spain, Greece and Ireland successfully tapped the bond markets in July for an aggregate €9.42 billion: Spain raised €5.97 billion (12 and 18-month bills), Greece €1.95 billion (13-week bills), and Ireland €1.5 billion (six and 10-year bonds). A relaxation of the capital requirements in combination with the postponement of the introduction of Basel 3 (a new and stricter set of accountancy rules limiting balance sheet flexibility of the banks) also helped sentiment. The UK reported consensus-beating GDP data for the second quarter, with output jumping 1.1% quarter-on-quarter versus market expectations of 0.6%. This was the strongest growth rate in four years. Construction rose 6.6%, manufacturing rose 1.6% and services output rose 0.9% (all quarter-on-quarter). We expect that capitalisation levels of European banks will continue to be under scrutiny, particularly those in Spain and some in Germany.

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