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SECTOR REVIEW

MONTHLY MORNING MEETING MAR 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

REGIONAL MARKETS UPDATE

US MARKET (4.0 STARS – VERY ATTRACTIVE)

- ISM Manufacturing index rose to 58.4 in Jan 10 from 55.9 in Dec 09
- ISM Non-Manufacturing composite index rose to 50.5 in Jan 10 from 50.1 in Dec 09
- Nonfarm payrolls fell by 20,000 in Jan 10, after a revised decline of 150,000 in Dec 09
- Unemployment rate improved to 9.7% in Jan 10 from 10% in Dec 09
- Advance Retail Sales gained 0.5% m-o-m in Jan 10 after a revised 0.1% m-o-m decline in Dec 09
- CPI gained 2.6% y-o-y in Jan 10 after a 2.7% increase in Dec 09
- Index of Leading Indicators gained 0.3% m-o-m in Jan 10 after a revised gain of 1.2% m-o-m in Dec 09
- Federal Fund Target Rate kept between 0 to 0.25%, discount rate raised from 0.5% to 0.75%

MARKET OUTLOOK

US manufacturing data surprised on the upside, with the ISM Manufacturing composite rising to 58.4 in January 2010, the highest since August 2004. The Empire manufacturing survey also confirmed a more positive outlook for manufacturing business conditions (in the New York area) as the February survey came in at 24.9, higher than the 18.0 expected by the consensus. The January ISM non-manufacturing composite remained above the 50 point mark which generally indicates expansion, but the measure has dipped below 50 in prior months, suggesting a muted recovery in the services sector.

Leading indicators continue to be constructive, gaining 0.3% month-on-month in January, the tenth consecutive monthly increase (the measure bottomed in March 2009). However, December's employment survey failed to show a marked improvement in the labour market. Nonfarm payrolls continued to decline marginally in December, but we believe that a trend reversal is not far off. The unemployment rate will likely stay high going into 2010, but we are heartened by the monthly increases in temporary hiring, which we believe is a leading indicator for a recovery in employment.

On 19 February, the Federal Reserve raised the discount rate from 0.5% to 0.75%, while maintaining the target rate. It is important to differentiate the discount rate from the target rate: the target rate reflects the Fed's policy intention, while the discount rate (representing the cost of emergency borrowing via the Fed discount window) has historically been pegged to the target rate (with a 1% spread). In view of the various systemic risks plaguing the financial sector, the spread between the Fed Funds Target Rate and the Fed discount rate was lowered from 1% to just 0.25% (by March 2008), making emergency loans to financial institutions via the discount window cheaper. Now that financial markets have stabilised, the discount rate is expected to be raised such that the spread over the Fed Funds Target Rate is back to the historical 1%.

While we expect a short-term negative reaction in the stock market in response to monetary tightening further down the road, such moves are unlikely to derail the economic recovery. Also, the Fed is unlikely to raise its target rate soon, with the economy facing high unemployment. Forward valuations are extremely reasonable with the US market trading at an estimated PE ratio of just 11.9X (as at 25 February 2010, based on expected 2011 earnings). We maintain a 4.0 star "very attractive" rating on the US market.

RECOMMENDED FUNDS:
ABERDEEN AMERICAN OPPORTUNITIES FUND
FLF OPPORTUNITIES USA USD