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Global Strategy and Investment Trends by David Fuller http://www.fullermarkets.com

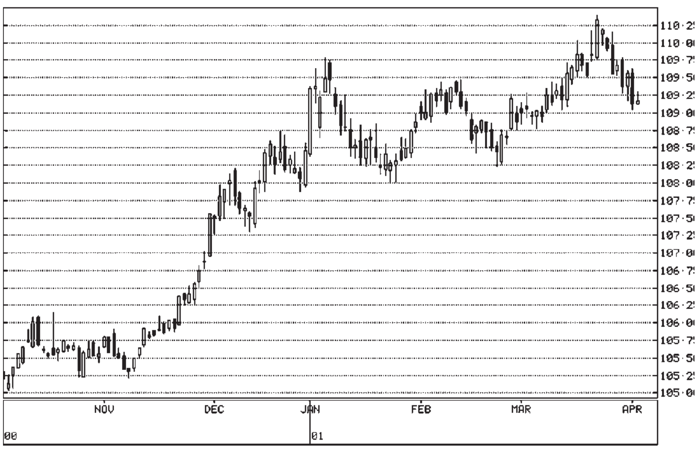
Quality government bonds are currently oversold within their late-stage bull market

Euroland and UK complacency on growth, at least from the officials - If you believe the forecasts from politicians, Europe is an oasis of stability in a troubled world and Chancellor of the Exchequer Gordon "Prudence" Brown will steer the UK to safety. This would be nice but I'd hedge against disappointment with a defensive portfolio. Confident economic statements, particularly from French bureaucrats, appear to be either 'whistling in the dark' or hubris. How does Europe remain unscathed when US GDP has slowed to 1%, while Japan's economy continues to deteriorate, compounding Asia's problems? Sentiment indicators for businesses and also consumers are weak, particularly in Germany. Energy prices remain high and therefore a drag on growth. The ECB has fallen behind the curve of economic events because it is preoccupied with inflation. Meanwhile, Euroland's money supply growth of slightly over 4% is too low for today's deflationary conditions. The UK's money expansion of 8.3% is more appropriate but the economy will be affected by slower global growth. Labour's stealth-tax blitz of recent years has eroded UK economic potential. Moreover, GDP growth could stall due to the foot-and-mouth epidemic, which will have a major impact on the UK's tourism industry this year.

Interest rate cuts are inevitable - Short-term rates of 5.75% and 4.75% in the UK and Euroland, respectively, are too high under the circumstances and we can expect several cuts over the next few months. Additionally, it is highly unlikely that the US Federal Reserve has completed its cycle of rate reductions. While this will eventually be bullish for equities, investors are still discounting slower growth and declining corporate earnings, conditions likely to persist through at least Q2 2001. Until people look beyond these problems and begin to discount the next upswing, quality government bonds offer comparative safety and scope for some additional capital appreciation before their late-stage bull market ends. Bond prices have eased recently and look oversold following profit taking triggered by a technical rally for stock markets. I continue to buy Gilt and Bund futures on setbacks and trade them out on rallies, in line with ranging activity evident on the charts.

Best regards - David Fuller

Eurobunds June 2001 : 109.17 Daily



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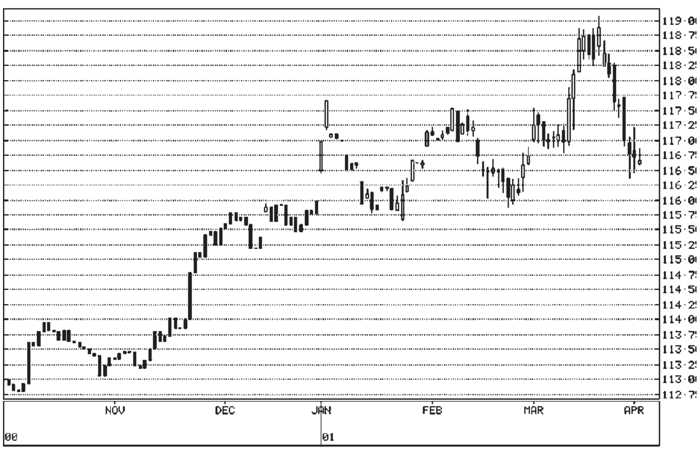

FullerMarkets a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK ***Website:*** www.fullermarkets.com
Email: research@fullermarkets.com ***Tel:*** +44 (0) 20 7351 5751 ***Fax:*** +44 (0) 20 7352 3185