

23 February 2010

STATE STREET  
INVESTOR CONFIDENCE INDEX<sup>®</sup>

## Alamo spirit lives on

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The Battle of the Alamo began on this day 174 years ago. A Texan force numbering around 200 held out for 13 days at the Alamo Mission in modern-day San Antonio against 2400 Mexican troops. The battle symbolizes the frontier spirit of Americans and their willingness to fight for liberty against insurmountable odds. In spite of stiff competition from Southfork Ranch, "the Alamo" remains the most-visited tourist attraction in Texas.

Institutional investors have seen their fair share of hostile fire in the past month. The Greek crisis refuses to disappear from the headlines simply because the problem remains intractable. A bailout would be political poison for German chancellor Angela Merkel. Back-door assistance, perhaps via selective quantitative easing executed by the European Central Bank, risks tarnishing its hard-won reputation for monetary rectitude. Intervention from the International Monetary Fund would represent an enormous loss of face for the architects of the euro.

Five-thousand miles to the east the ratcheting up of banks' reserve requirements by the authorities in Beijing is also causing concern. China did more than any other country to rekindle its economy when it announced a \$586 billion stimulus, equivalent to 17% of GDP, late in 2008. The first signs that this was working coincided with a revival in risk appetite in 2009. Now there are fears that this Keynesian experiment has ended in asset price bubbles and inflation and that swingeing rate rises are just around the corner.

Against this backdrop the modest 0.7 point decline in the Investor Confidence Index to 103.9 this month speaks volumes for the resilience of institutional investors. They are cautious but still selectively prepared to take risk. This is revealed in the pattern of investor behaviour across markets. In aggregate equity flows have moderated but are not aligned with outright risk aversion. Classically defensive sectors such as Telecoms and Utilities remain out of favour. By contrast appetite for the Materials sector is strong, which suggests there is some residual faith in the commodities super-cycle.

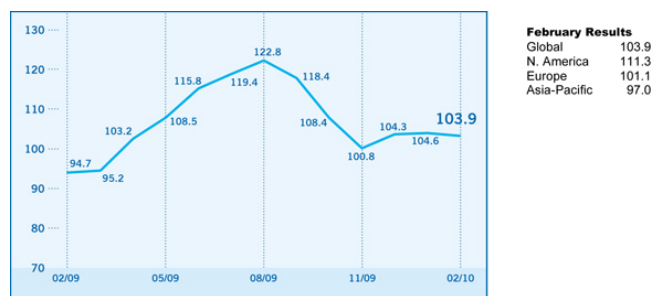
The regional mix of the Investor Confidence Index is also revealing. Concern is highest among Asian investors, perhaps because of the policy dilemma confronting China. Confidence is greatest in North America. This might reflect Alamo-style *sang-froid*, but is also backed by economic data. The US

Index of Leading Economic Indicators of the Conference Board has recorded a tenth-consecutive monthly rise. Industrial production and housing starts rose by more than forecast.

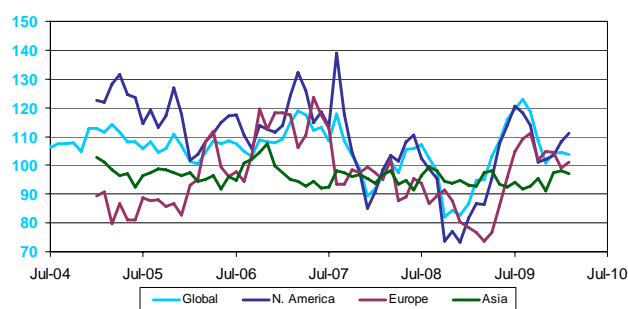
Company earnings have generally met or beaten analysts' expectations in the first quarter. But perhaps most important of all the US consumer is showing signs of life. Core retail sales rose by 5.6% annualized in the six months to January. The belief that the US is now on the recovery path has been given an official stamp of approval by the Federal Reserve's decision to raise the discount rate last week.

Institutional investors have reacted accordingly. At the close of 2009 monthly cross-border equity flows into the US were in the 24th percentile of their past history. The current monthly flow reading has risen to the 74th percentile. After the dramatic gyrations of 2008 and 2009 the Investor Confidence Index has marked time of late. But the resilience of institutional investors faced with a barrage of bad news may bode well for the future. Where the news has been good, as is the case in the US, investors have been ready to buy more equities.

## State Street Investor Confidence Index



## State Street Regional Investor Confidence Indices



## Global Investor Confidence Index Data

Announcement date	Investor confidence index	Announcement date	Investor confidence index	Announcement date	Investor Confidence Index
Jun-00	136.2	Jan-04	115.3	Aug 07	117.7
Jul-00	131.9	Feb-04	122.2	Sep 07	108.5
Aug-00	135.7	Mar-04	121.8	Oct 07	103.4
Sep-00	124.2	Apr-04	124.8	Nov 07	98.9
Oct-00	122.3	May-04	123.1	Dec 07	89.3
Nov-00	117.7	Jun-04	111.3	Jan 08	91.9
Dec-00	120.4	Jul-04	106.2	Feb 08	96.7
Jan-01	135.5	Aug-04	107.4	Jan 08	101.4
Feb-01	132.6	Sep-04	107.5	Feb 08	97.6
Mar-01	134.9	Oct-04	107.7	Mar 08	105.4
Apr-01	132.4	Nov-04	104.9	Apr 08	105.8
May-01	131.2	Dec-04	112.8	May 08	107.0
Jun-01	125.9	Jan-05	112.8	Jun 08	102.6
Jul-01	120.2	Feb-05	111.4	Jul 08	98.1
Aug-01	118.5	Mar-05	114.2	Aug 08	82.1
Sep-01	119.1	Apr-05	111.5	Sep 08	84.3
Oct-01	130.6	May-05	108.2	Oct 08	82.8
Nov-01	130.1	Jun-05	108.0	Nov 08	86.9
Dec-01	127.8	Jul-05	105.8	Dec 08	94.7
Jan-02	127.7	Aug-05	108.2	Jan 09	95.2
Feb-02	128.4	Sep-05	104.5	Feb 09	103.2
Mar-02	128.3	Oct-05	105.8	Mar 09	106.3
Apr-02	121.4	Nov-05	110.8	Apr 09	117.7
May-02	127.8	Dec-05	106.9	May 09	108.5
Jun-02	129.9	Jan-06	101.5	Jun 09	115.5
Jul-02	121.5	Feb-06	100.3	Jul 09	119.4
Aug-02	117.0	Mar 06	104.5	Aug 09	122.9
Sep-02	127.7	Apr 06	108.5	Sep 09	118.1
Oct-02	127.8	May 06	107.6	Oct 09	108.4
Nov-02	119.5	Jun 06	108.6	Nov 09	100.8
Dec-02	118.8	Jul 06	107.5	Dec 09	103.9
Jan-03	122.4	Aug 06	104.7	Jan 10	104.5
Feb-03	118.7	Sep 06	103.3	Feb 10	103.9
Mar-03	112.3	Oct 06	108.9		
Apr-03	115.3	Nov 06	108.1		
May-03	127.3	Dec 06	107.7		
Jun-03	123.7	Jan 07	109.1		
Jul-03	125.4	Feb 07	114.9		
Aug-03	125.4	Mar 07	118.9		
Sep-03	125.9	Apr 07	117.4		
Oct-03	122.8	May 07	112.3		
Nov-03	120.4	Jun 07	113.1		
Dec-03	120.1	Jul 07	108.5		

### North American Investor Confidence Index Data

Announcement date	Investor confidence index
Jan 07	113.9
Feb 07	124.3
Mar 07	132.2
Apr 07	125.8
May 07	114.7
Jun 07	118.4
Jul 07	113.4
Aug	139.0
Sep 07	117.8
Oct 07	104.4
Nov 07	97.4
Dec 07	84.9
Jan 08	90.7
Feb 08	98.3
Mar 08	103.4
Apr 08	101.3
May 08	108.0
Jun 08	110.5
Jul 08	102.4
Aug 08	98.8
Sep 08	95.5
Oct 08	73.8
Nov 08	77.0
Dec 08	73.3
Jan 09	81.8
Feb 09	86.9
Mar 09	86.4
Apr 09	95.3
May 09	104.9
June 09	113.6
July 09	113.8
Aug 09	118.4
Sep 09	113.7
Oct 09	101.1
Nov 09	102.2
Dec 09	103.1
Jan 10	107.9
Feb 10	111.3

### Europe Investor Confidence Index Data

Announcement date	Investor confidence index
Jan 07	118.1
Feb 07	117.6
Mar 07	106.0
Apr 07	110.4
May 07	123.4
Jun 07	117.6
Jul 07	113.0
Aug 07	93.3
Sep 07	93.5
Oct 07	98.6
Nov 07	97.6
Dec 07	99.5
Jan 08	97.6
Feb 08	95.2
Mar 08	102.2
Apr 08	87.6
Mar 07	89.0
Jun 08	95.5
July 08	93.6
Aug 08	86.7
Sep 08	89.5
Oct 08	91.5
Nov 08	87.6
Dec 08	80.3
Jan 09	78.4
Feb 09	76.7
Mar 09	73.7
Apr 09	76.8
May 09	84.3
Jun 09	95.0
Jul 09	104.6
ug 09	109.2
Sep 09	110.9
Oct 09	101.8
Nov 09	105.5
Dec 09	104.6
Jan 10	98.9
Feb 10	101.1

### Asia Pacific Investor Confidence Index Data

Announcement date	Investor confidence index
Jan 07	97.5
Feb 07	95.0
Mar 07	94.5
Apr 07	92.9
May 07	94.4
Jun 07	92.0
Jul 07	92.4
Aug 07	98.0
Sep 07	97.3
Oct 07	96.2
Nov 07	96.7
Dec 07	95.4
Jan 08	93.8
Feb 08	96.7
Mar 08	98.1
Apr 08	93.3
May 08	94.7
Jun 08	91.4
Jul 08	96.6
Aug 08	99.3
Sep 08	98.1
Oct 08	94.6
Nov 08	93.9
Dec 08	94.7
Jan 09	93.2
Feb 09	92.8
Mar 09	97.3
Apr 09	98.0
May 09	93.1
June 09	92.1
July 09	94.2
Aug 09	91.8
Sept 09	93.1
Oct 09	95.3
Nov 09	91.2
Dec 09	97.5
Jan 10	97.0

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