PRE-ELECTION BUDGET ATTEMPTS TO WOO VOTERS

The headlines this week were understandably dominated by the budget. Pre-election budgets are always a bit odd; the chancellor is torn between wanting to give loads of stuff away to buy votes, and not wanting to be caught in doing so. There was nothing that really struck us from an investment point of view this week, apart from the odd bit here and there that could no doubt please the odd swing voter. Probably the most important news came from the Office of Budgetary Responsibility, which forecast a slightly reduced program of austerity. While any government will likely make cuts, having enough left to continue investing in infrastructure is critical to the future growth rate of the economy.

Elsewhere the strong dollar caused the US Fed to have second thoughts on raising rates – causing much cheer for equity and bond markets that previously had been getting skittish. It is striking how badly the markets are at predicting rate rises; they have been expecting a rate rise any day now for at least two years. We expect all central banks to be ultra-cautious and therefore less inclined to initiate a hike than they were before the financial crisis.

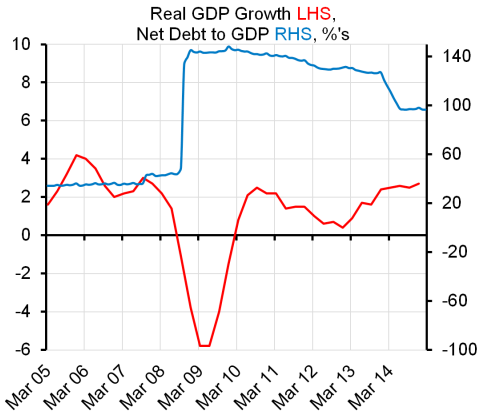
THE MARKETS THIS WEEK

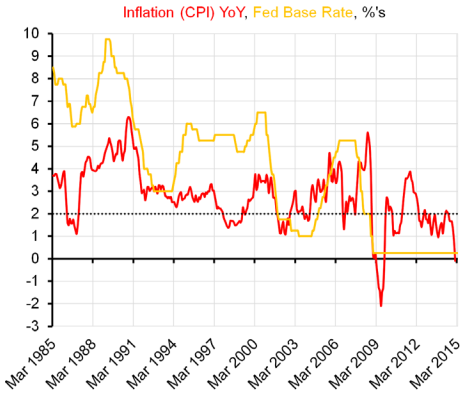
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+3.52%	+1.13%	+1.59%	+2.32%	+1.11%	+1.09%	+1.93%	-3.42%	+0.84%	+1.40%	+1.72%

UK: OSBORNE REVEALS BUDGET AHEAD OF ELECTION

In his sixth Budget speech and potentially most crucial yet, George Osborne pledged to end a decade of cuts a year early and to raise the levy on banks in order to fund tax breaks. His rhetoric over the easing of austerity measures was poignant, with the election now less than 50 days away.

Among the key budget points was his launching of the "help to buy" individual savings account in a bid to encourage first-time buyers to save for a deposit. Osborne also stated that £1.3bn of support for the North Sea oil industry will be achieved through reducing corporation tax from 30 per cent to 20 per cent, and cutting existing levies on oil producers in the region. In addition to announcing new measures to crackdown on tax avoidance and evasion, the bank levy rate is to be raised to 0.21 per cent and should generate £900m a year. With public sector net debt as a share of GDP also expected to fall to 80.2 per cent in 2015/16, Osborne is evidently targeting the well-documented cluster of voters who still remain undecided.





US: FEDERAL RESERVE STOKE EXPECTATIONS OF RATE RISE

The US Federal Reserve has paved the way for a rise in interest rates for the first time in nearly a decade. In Wednesday's statement, the Federal Open Market Committee said that it would consider raising rates when it was "reasonably confident" that inflation would revert back to its 2 per cent medium term target. Speculation over a rate hike as early as June has dampened with the likely first date now being assumed to be later in September.

Janet Yellen, Fed Chairwoman was keen to stress that by removing their "patient" pledge, this does not presume any central bank impatience over a rate rise. A steady implementation of interest-rate increases was hinted at amid disappointing forecasts for growth and inflation. Investors generally welcomed the news as the S&P 500 jumped 1.2 per cent on the Fed announcement, however the dollar fell 3 per cent against the euro to $1.09. Nevertheless, markets have overreacted to Fed minutes in the past so we remain sceptical for now.

EU: GERMAN DAX BREAKS 12,000 BARRIER

Germany's Dax index closed above the 12,000 barrier for the first time on Monday. Eurozone indices have mostly rallied in response to the European Central Bank's decision to implement its quantitative easing programme earlier this month, and Germany is no different. The ECB's €1.1tn QE programme provides a boost to a region already benefitting from low interest rates, sharply declining oil prices and a weaker euro, which has inflated foreign earnings. To heighten this point, 22 per cent of Dax revenues are denoted in dollars, which when converted back into euros provides an earnings boost for the parent company.

Elsewhere, Greece's prime minister Alexis Tsipras has vowed to accelerate his economic reforms after a meeting with EU creditors on Thursday. Previously agreed terms have floundered somewhat recently over Greek objections to detailed engagement with bailout personnel in Athens. The government will attempt to secure €7.2bn of bailout money, which will only be released upon full acceptance of the reforms.