

22 April 2008

STATE STREET
INVESTOR CONFIDENCE INDEX[®]

Endurance Test

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In the epic poem *Mazeppa* (1819) Lord Byron writes: "Prolonged endurance tames the bold." The persistence of the credit crunch, its impact on the financial sector and spillover into the real economy is an investment backdrop that would test the mettle of the bravest. It is perhaps not surprising therefore that Investor Confidence Index has dipped slightly this month.

The picture is still not as bad as it was in December and January. In the North America, there are forces pulling in opposite directions, which will mean confidence is liable to remain brittle. On the one hand, aggressive monetary easing by the Federal Reserve, the rescue of Bear Stearns and opening of the discount window have dampened concerns over the soundness of the financial system. On the other hand, the housing market is lurching from awful to dire and the economy is on the precipice of recession if it has not already toppled over.

The fragility of confidence in North America has proved to be contagious. The global index was largely dragged lower by a sharp 10 point decline in confidence among European investors. This is the biggest monthly move in this sub-index and takes confidence back to levels last seen in 2005. Economic decoupling has been a favourite theme among strategists, but in terms of confidence when North America sneezes, Europe still catches cold.

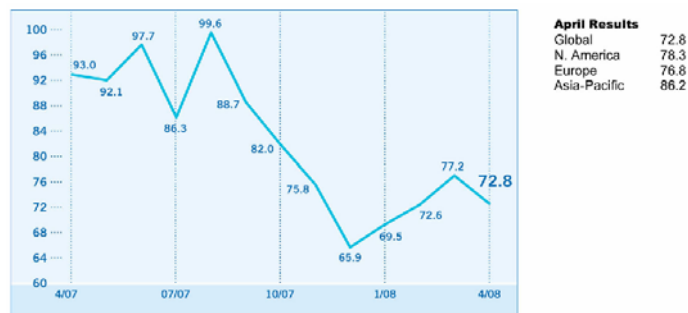
European banks have not been immune to the credit crisis. But, just as in North America, these concerns have been added to by growing signs of economic strain. The OECD has slashed growth forecasts across Europe and the so called "olive oil belt" countries look particularly vulnerable. The newly re-elected Spanish government has approved a E10 billion fiscal stimulus package to ward off what many economists believe will be a hard landing as its US-style housing bubble deflates.

Confidence among Asian investors remains resilient. The debate still rages over whether emerging market economies will decouple or re-couple from the US. Trade is the channel through which a US slowdown will spread to emerging markets. However, though the US is by far the biggest importer of goods from China, for example, growth in its share of exports has slowed. Further, inter-emerging market trade, such as exports of commodities from Brazil to China, is increasingly significant.

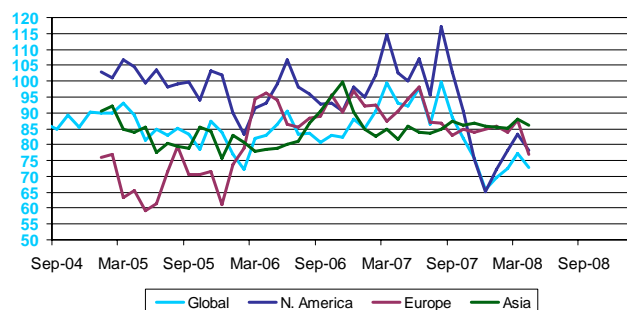
Investors into emerging markets seem hopeful. Flows over the last month are at around the median level versus past history. That is a slight improvement on one month ago despite the small decline in investor confidence. Flows into Latin America over the past month are markedly stronger, improving to the 79th percentile versus one month ago (flows only higher on 21 percent of occasions in history).

Confidence is zigzagging as the attention of investors shifts from the credit crunch to the real economy. That is most true in the US where the signs of a slowdown are already clear. Elsewhere, confidence is likely to remain fragile and data dependent. The resolution of the decoupling/re-coupling debate is a long way off. Though investors are no longer as outright bearish as they were at the start of the year, the intractable nature of this crisis is once more fraying already shredded nerves.

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	107.2	Mar-03	92.5	Dec-05	84.7
Jul-00	101.7	Apr-03	93.1	Jan-06	77.0
Aug-00	108.3	May-03	98.5	Feb-06	72.1
Sep-00	95.7	Jun-03	96.9	Mar 06	81.9
Oct-00	92.2	Jul-03	105.4	Apr 06	83.0
Nov-00	87.8	Aug-03	103.6	May 06	86.3
Dec-00	94.7	Sep-03	102.5	Jun 06	90.5
Jan-01	108.9	Oct-03	105.0	Jul 06	83.3
Feb-01	111.2	Nov-03	107.7	Aug 06	82.9
Mar-01	103.3	Dec-03	109.0	Sep 06	80.7
Apr-01	107.0	Jan-04	98.6	Oct 06	82.9
May-01	101.9	Feb-04	93.9	Nov 06	82.2
Jun-01	102.2	Mar-04	91.7	Dec 06	88.0
Jul-01	97.0	Apr-04	92.0	Jan 07	85.2
Aug-01	95.2	May-04	91.9	Feb 07	90.6
Sep-01	96.1	Jun-04	85.5	Mar 07	99.3
Oct-01	100.8	Jul-04	84.6	Apr 07	93.0
Nov-01	99.2	Aug-04	86.5	May 07	91.2
Dec-01	96.7	Sep-04	85.3	Jun 07	97.2
Jan-02	100.9	Oct-04	89.2	Jul 07	87.0
Feb-02	100.4	Nov-04	85.5	Aug 07	99.6
Mar-02	97.3	Dec-04	90.1	Sep 07	92.1
Apr-02	92.2	Jan-05	89.8	Oct 07	82
May-02	98.1	Feb-05	89.8	Nov 07	74.3
Jun-02	103.1	Mar-05	93.2	Dec 07	65.8
Jul-02	92.6	Apr-05	89.2	Jan 08	69.5
Aug-02	86.8	May-05	83.9	Feb 08	73.0
Sep-02	98.3	Jun-05	84.5	Jan 08	69.5
Oct-02	98.5	Jul-05	82.1	Feb 08	72.6
Nov-02	94.7	Aug-05	85.3	Mar 08	77.2
Dec-02	87.2	Sep-05	83.4	Apr 08	72.8
Jan-03	98.0	Oct-05	78.6		
Feb-03	99.2	Nov-05	86.9		

North American Investor Confidence Index Data

Announcement date	Investor confidence index
Aug 06	96.0
Sep 06	92.8
Oct 06	93.2
Nov 06	90.7
Dec 06	98.2
Jan 07	94.9
Feb 07	101.9
Mar 07	114.5
Apr 07	100.2
May 07	99.9
Jun 07	100.1
Jul 07	95.8
Aug	116.5
Sep 07	106.0
Oct 07	89.2
Nov 07	78.9
Dec 07	65.3
Jan 08	71.8
Feb 08	78.1
Mar 08	83.5
Apr 08	78.3

Asia Pacific Investor Confidence Index Data

Announcement date	Investor confidence index
Aug 06	86.6
Sep 06	90.7
Oct 06	95.2
Nov 06	99.7
Dec 06	90.1
Jan 07	85.0
Feb 07	82.5
Mar 07	85.0
Apr 07	81.7
May 07	84.3
Jun 07	85.8
Jul 07	83.5
Aug 07	84.1
Sep 07	86.5
Oct 07	85.7
Nov 07	86.9
Dec 07	85.8
Jan 08	85.4
Feb 08	85.2
Mar 08	88.0
Apr 08	86.2

Europe Investor Confidence Index Data

Announcement date	Investor confidence index
Aug 06	88.4
Sep 06	88.9
Oct 06	95.5
Nov 06	90.2
Dec 06	97.0
Jan 07	92.2
Feb 07	92.5
Mar 07	87.3
Apr 07	90.5
May 07	94.2
Jun 07	94.4
Jul 07	90.4
Aug 07	86.4
Sep 07	82.3
Oct 07	83.6
Nov 07	84.0
Dec 07	85.0
Jan 08	86.6
Feb 08	84
Mar 08	88.6
Apr 08	76.8

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