

# JWH MARKET COMMENTARY

JANUARY 2008

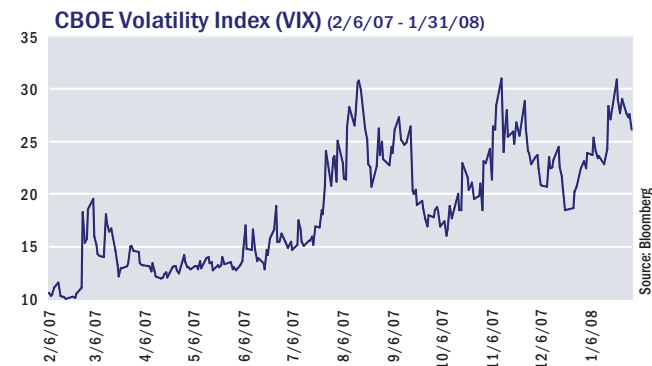


JOHN W  
HENRY &  
COMPANY

INC

# RECESSION FEARS DRIVE PERFORMANCE

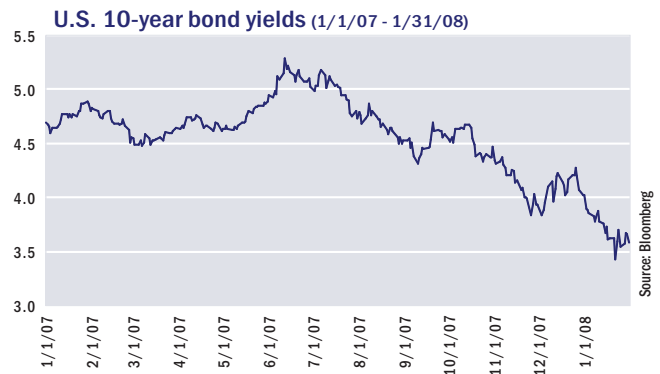
JWH trading performance in January was strong with five of its programs experiencing positive returns. Fear returned to the markets as the December holiday season proved to be just a brief respite from the turbulence of last quarter. An important shift in the market's focus seemed to be emerging at the start of 2008. Last year the global economy was relatively strong. The market consternation was idiosyncratic and related to specific issues affecting the housing and credit markets in the U.S. In January, the concern was more generalized, as the market began to adjust for the possibility of a U.S. recession and a significant slowdown in global growth. By mid month, many of world's major stock markets were experiencing double-digit declines. Concerns about the economy and the performance of U.S. equities led the U.S. Federal Reserve Board (the Fed) to cut interest rates 75 basis points on January 22<sup>nd</sup>. This was the first inter-meeting rate move by the Fed since 2001. This reduction was followed by a second cut of 50 basis points on January 30<sup>th</sup>. The Fed Funds rate ended the month at 3 percent. The aggressive stance of the Fed and news that the White House and Congress were coming to an agreement on an economic stimulus package combined to stabilize equity prices towards the end of the month.



**GLOBAL STOCK INDICES** – The firm's trading in global equity futures was profitable during the month. U.S. equi-

ties suffered through one of the worst January's on record as fears of a U.S. recession intensified. The S&P 500 lost 6.1 percent for the month, while the Nasdaq Composite shed 9.9 percent amid rising volatility. Financial shares were particularly hard hit as uncertainty about the extent of sub-prime write-offs persisted. The increasing risk of recession took its toll on the technology sector as a number of bellwether issuers suffered significant declines. Global decoupling and the belief that the world economy can be immune from weakness in the U.S. was an important theme in 2007. However, this idea was put to the test in January as stock markets worldwide and, in particular, those in Japan and Europe experienced worse declines than the U.S. markets.

**INTEREST RATES** – Similarly, there was strong performance in the interest rate sector as both the long and the short end of the U.S. yield curve rallied sharply in response to weakening economic data, declining stock prices and monetary stimulus. The yield on the benchmark U.S. 10-year bond declined 43 basis points to 3.59 percent by month-end.



The actions by the Fed were notable in terms of both magnitude and timing, as they reduced interest rates by close to 30 percent in two separate moves over an eight-day period. Significant profits were generated in

Eurodollar futures as the market digested this action and began to price in additional interest rate cuts. Outside the U.S., Japanese government bonds (JGBs) performed well. In addition to weakness in Japanese equities, JGBs found support from data that showed Japanese economic growth was beginning to slow.

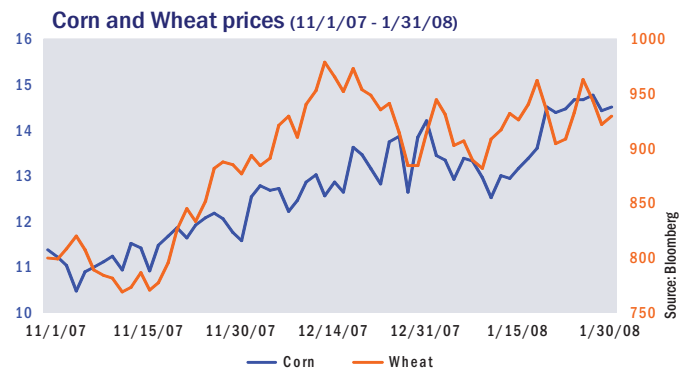
**CURRENCIES** – Trading in currencies was positive for most of JWH’s programs in January. The dollar declined modestly during the month in continued choppy trading. Rising volatility and investor fear resulted in a general unwinding of currency carry trades. Within the G-10 universe, the low yielding Japanese yen and Swiss franc were the strongest currencies during the month and appreciated twice as much against the dollar, on average, than the rest of the G-10 universe. The relative weakness of the British pound continued in January as the markets perceived it to be suffering from many of the same ills as the U.S. dollar. The Swiss franc was one of the top performers in this sector.

**METALS** – Trading in metals was mixed with positions in gold driving performance. Gold traded to an all-time high during the month above \$930 per ounce. The continued weakness of the U.S. dollar, stock and credit markets were bullish factors, as well as news that disruptions in African mining activity would have an effect on supplies. Positions in silver also contributed to performance in the sector as it loosely followed the direction of gold.

**ENERGIES** – Trading in energies was negative for January. Crude oil and the crude oil products started the year faltering from near record prices as market sentiment was influenced by price action in the equity markets and concerns about a slowdown in economic activity. Trading was volatile as an impending OPEC meeting on February 1<sup>st</sup> added to the market uncertainty.

**AGRICULTURAL COMMODITIES** – JWH continues to

benefit from the bull market in grain prices. Positions in corn, wheat, soybeans and bean oil were all profitable. Corn positions led the way as the price moved higher in response to the mid-month release of a USDA report that showed a sharp drop-off in the U.S. corn stockpile. Wheat prices also were helped by reports of lower than expected planting intentions. Positions in sugar and London coffee also contributed to profits this month.



**CONCLUSION** – Overall, the majority of JWH’s programs were able to provide clients with a strong positive, uncorrelated return during a difficult month for traditional investments. While no one can predict the future behavior of markets, the recent environment has been better suited to the disciplined, systematic investment style employed by JWH.

As always, the firm stands ready to potentially take advantage of any continuing or new trends that may emerge.

We thank you for your continued support.

Kenneth S. Webster  
President and Chief Operating Officer

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS