

# JWH MARKET COMMENTARY

JULY 2010



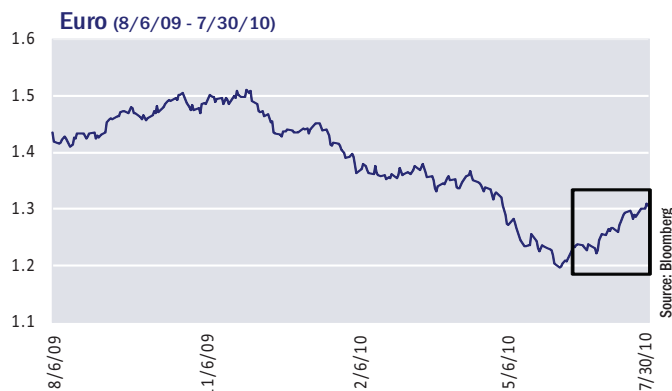
JOHN W  
HENRY &  
COMPANY  
INC

# EQUITY VOLATILITY HIGHLIGHTS

## RECOVERY UNCERTAINTY

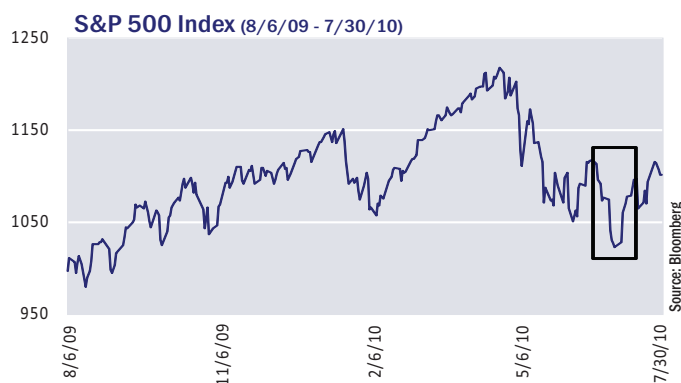
JWH programs turned in negative performance in July. In general the trends that drove positive second quarter performance corrected or as was the case with U.S. equities, experienced an abrupt reversal. Heightened uncertainty regarding the outlook for the U.S. economy remained a key theme as the data released during the month was mixed and did little in the way of offering clarity to investors. Federal Reserve Chairman Ben Bernanke echoed this sentiment in his testimony before the Senate Banking Committee, while also attributing the mixed economic performance to the fiscal crisis in Europe and the concomitant reduction in risk-taking across global financial markets. Perversely, it may be that this dour assessment of the economy is what caused financial markets to reverse course in July as expectations for supportive monetary policy increased. In the end, July ultimately proved to be a month of recovery for risky assets, with the S&P 500 gaining more than 6 percent, as it snapped back from the depressed levels of June.

**CURRENCIES** – Most programs suffered losses from positions in the euro. The EUR/USD exchange rate rallied more than 4 percent during the month as the downtrend in the currency, which had been in place for most of 2010, came to an abrupt end.



The rally in the European currency coincided with a narrowing of swap spreads between Europe and the U.S. reflecting reduced stress in the European banking system. In fact, the results of the ECB bank stress tests were released on July 23<sup>rd</sup> and showed that 84 of 91 banks passed, which provided a further measure of relief to investors. The Japanese yen, which had been strong heading into the month, appreciated another 2.3 percent against the dollar during July and helped to offset some of the losses from trading in the euro.

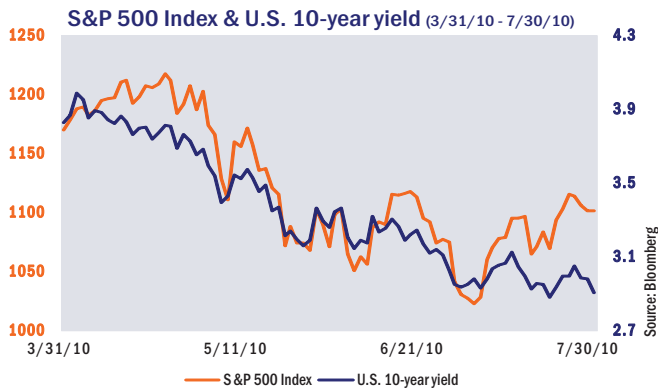
**GLOBAL STOCK INDICES** – Positions in equity futures were unprofitable as most programs were caught offside for much of the month-long price reversal. The S&P 500 rallied more than 6 percent in July as global credit conditions improved and earning season progressed without incident.



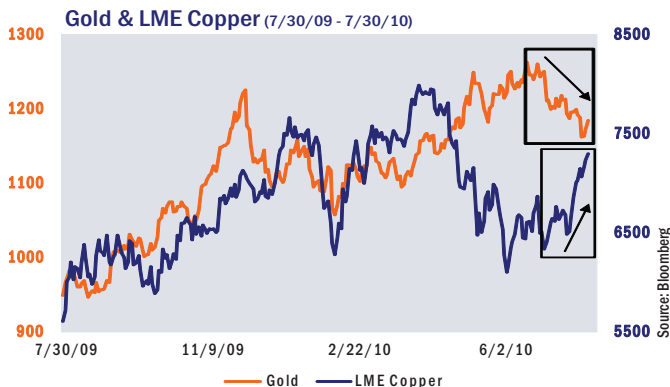
In fact, the tech-laden NASDAQ Index appreciated more than 7 percent in July, buoyed by better-than-expected earnings results from important tech bell weathers. Stocks also benefited from a marked shift in investor sentiment away from the bearishness that permeated the market in June.

**INTEREST RATES** – JWH's programs were able to profit from positions in interest rates. The recent

move higher in bond prices that began in May and continued in June was supported by flight-to-quality flows out of equities and other risky assets as turmoil in the European financial markets peaked. Fortunately for the programs, there was a break in this relationship between bond and stock prices in July as bond prices held their ground and moved higher along with equities. Positions in U.S. and Japanese bonds outperformed positions in European interest rates as the chaos in the European credit markets waned.

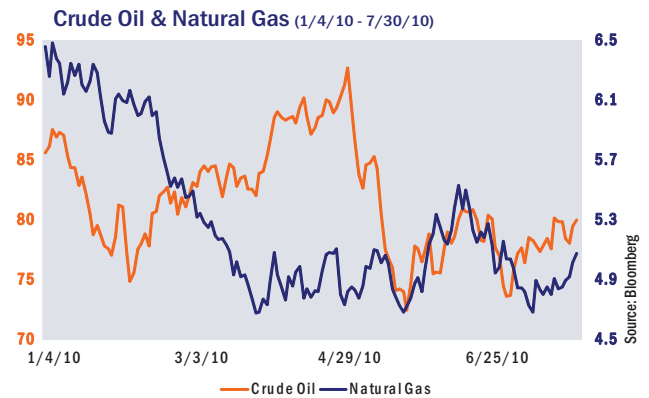


**METALS** – The sharpest corrections and the most difficult markets in July were found in the metals sector. As concerns about a drastic slowdown in global growth resulting from the European financial crisis began to fade, industrial metals experienced a sharp upward reversal with copper rallying more than 12 percent month-on-month. The rally accelerated in the second half of the month as rhetoric from central bank officials was dovish on balance and suggested monetary policy would remain accommodative for the foreseeable future in an effort to support economic activity.

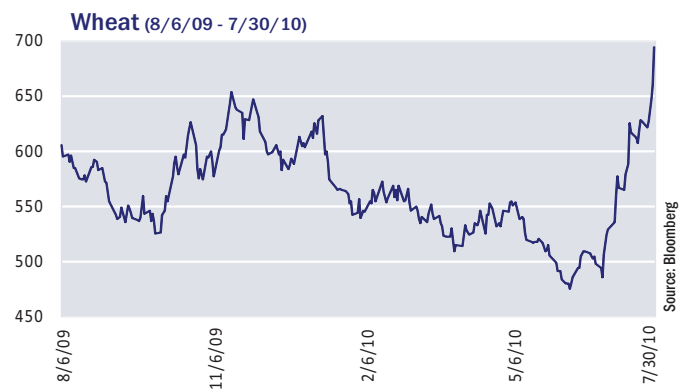


Gold also corrected, falling more than \$50 per ounce from the near-record prices of \$1,265 per ounce at the end of June.

**ENERGIES** – Price action in the energy sector continued to lack clear direction as the summer driving and cooling season failed to spark movement in either direction. Lacking any other impetus, the markets tended to move together and to track changes in risk sentiment. Natural gas and petroleum products started July trading to the downside but shifted direction after the first week of the month and followed equity prices higher into the close of the month. The programs suffered small losses in crude oil, crude oil products and natural gas.



**AGRICULTURAL COMMODITIES** – The agricultural sector was mixed with results dependent on portfolio weights. JWH was able to profit from a spectacular rise in the price of wheat.



The grain rallied more than 35 percent month-on-month as speculation that the heat wave gripping Russia will have a meaningful impact on the global

supply-demand dynamic for this commodity. An unfortunate consequence of the strong rally in wheat was the impact it had on the grain sector in general. Specific markets such as corn, which was in a clear downtrend heading into the month, had their price patterns disrupted as they were dragged higher by the force of the wheat move leading to mixed results across the sector. Strength was seen in other parts of the sector with coffee, sugar and soybeans also moving higher.

**CONCLUSION** – July yielded negative performance for JWH’s programs due to what appears to be a general lack of conviction across the markets. This may be most evident in the equity markets where the S&P 500 has shown more day-to-day volatility this year than at any point since the dramatic fourth quarter of 2008. In reviewing the last three months of daily returns for the index, it is of interest to note that over half of the trading days resulted in a move in excess of 1 percent, positive or negative, from the prior day’s close with over half those days moving to the downside. While the recent move may be positive with the year to date performance close to unchanged, the day-to-day swings in the market suggest that there may be little confidence in the long-term recovery and that these volatile rallies are the result of trading short-term news. A high level of uncertainty remains in the market place at present with a wide range of potential outcomes for the global economy. The picture will eventually become clearer and sustainable trends will emerge as investors adjust their long-term exposures to include a broader and more diverse set of investment opportunities.

We thank you for your continued support.

Kenneth S. Webster  
President and Chief Operating Officer