

# JWH MARKET COMMENTARY

MAY 2009



JOHN W  
HENRY &  
COMPANY

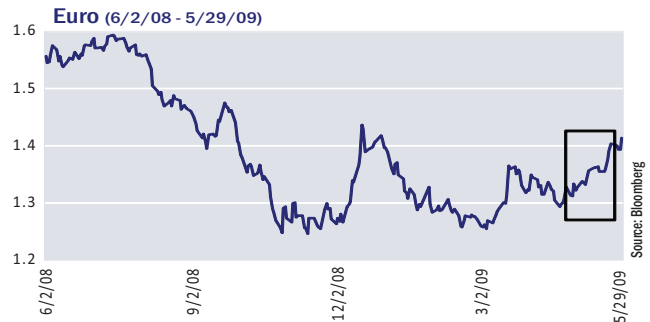
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# INVESTOR OPTIMISM CONTINUES DESPITE MIXED ECONOMIC SIGNALS

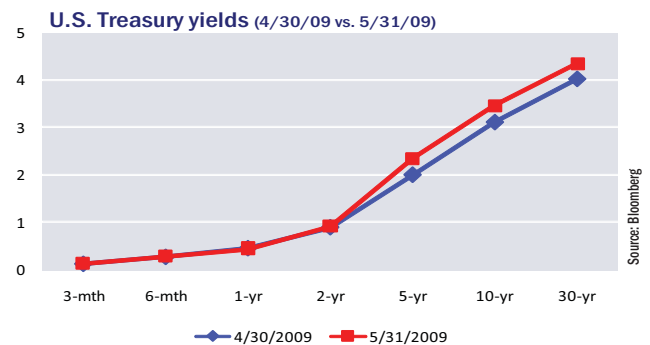
Performance in May was positive for all JWH programs. JWH GlobalAnalytics® fared best returning 6.7 percent for the month. While barometers of investor sentiment, including the stock market, have been showing signs of improvement since mid-March, the price action across a broader spectrum of markets has been relatively stable for much of the year as the large moves from 2008 took time to consolidate. The extended price action witnessed in May could indicate a transition in the markets from normalization to the nascent stage of emerging long-term trends. Global equity prices moved higher for the third straight month, with the S&P 500 and MSCI EAFE returning 5.6 percent and 13.4 percent respectively. The market discounted negative news on the economy, including the collapse of the largest U.S. automaker, and declines in certain economic indicators such as GDP, which shrank at a 5.7 percent annual pace in the first quarter, capping its worst six-month performance in five decades. The markets are looking forward, encouraged by the improvement in U.S. financial conditions and signs of better economic activity in certain emerging economies.

**CURRENCIES** – Currency trading led the way in May as the U.S. dollar suffered a significant decline during the month. Investor calm and increasing flows into riskier assets such as stocks and commodities indicate the allure of the dollar as a safe haven has diminished for the time being. The dollar was particularly weak against European currencies. The pound had one of the largest one-month gains against the dollar in nearly two decades as it traded from 1.4790 to 1.6189 during the month. The dollar also fell hard against the currencies of commodity-exporting nations such as Australia. The dollar's low-yield and the perception, which was heightened by the bankruptcy of General Motors, that U.S. budget deficits will continue to rise with the need for

further corporate bailouts, are two additional factors that weighed on the dollar. Gains from outright positions in the dollar were more than sufficient to offset small losses in non-dollar cross-rate trading.



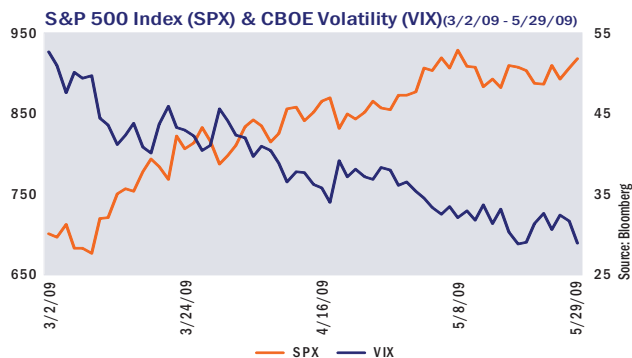
**INTEREST RATES** – Trading in the interest rate sector was also profitable in May. Yields on government debt around the world rose as safe haven flows ebbed and other asset prices continued to stabilize. In the U.S., the yield curve steepened as bonds of medium and long-term maturities broke out of long-held ranges. While a decrease in investor fears certainly played a role in the price action, the U.S. government bond market is also hampered by increasing supply, worries about the future demand from foreign central banks and rising inflation expectations. The benchmark U.S. 10-year yield rose from 3.11 percent to 3.46 percent during the month.



The spread between U.S. 2-year yields and U.S. 10-year yields steepened from 221 basis points to 254 basis points during the month. Accordingly, the programs positions in bonds, of longer maturities, made a greater

contribution to gains in the sector. Globally, profits from positions in Japanese government bonds also contributed to the positive performance.

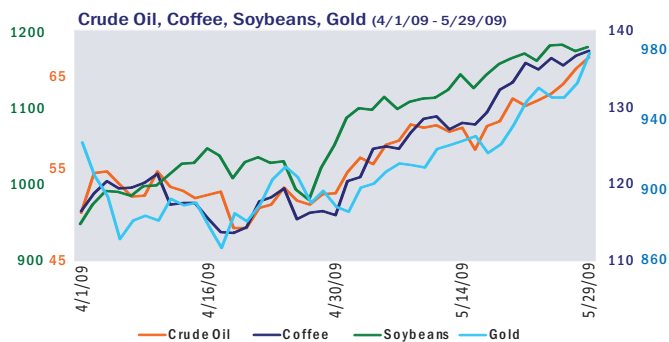
**GLOBAL STOCK INDICES** – Global equity markets continued their recovery in May with the S&P 500 finishing the month up more than 35 percent from the March lows. Many international markets turned in better performance during the same period. Volatility continued to decline with the VIX index moving below 30 percent, which is a level below where it was trading before the financial crisis started in 2008. Evidence of this improved sentiment could be traced to the IPO market where a number of firms, including large financial firms, had success raising capital through stock sales. While the markets themselves performed well, the program’s profits were somewhat muted as the models have been continually adjusting to the change in trends.



**METALS** – The metal sector was profitable as gains in gold outstripped small losses from trading in industrial metals. The gold market has benefited greatly from the weakness in the dollar as it approached a price of \$1,000 per ounce in May. Month on month, it traded from \$900 to close the month at \$978 per ounce for a gain of 8.6 percent. The price action in base metals, especially aluminum, was quite choppy during the month and led to small losses in that sub-sector.

**AGRICULTURAL COMMODITIES** – One effect of the recently announced stimulus plan from China has been an increase in the demand for a host of commodities. This along with the weaker dollar has provided a significant

tailwind for a broad spectrum of commodities. A number of agricultural markets turned in strong performance in May. Soybeans was the best-performing market in the sector as it benefited from global macro factors such as the weaker U.S. dollar but also from positive seasonal supply factors. Soybean plantings through May were well below five-year averages. The coffee market was also quite strong and an important driver of the programs performance in May. The nearby N.Y. coffee contract traded in a straight line higher for most of the month gaining 18.5 percent.



**ENERGIES** – While energies were hardly left out of the broad commodity market rally in May the programs trading suffered small losses making it the lone unprofitable sector for the month. JWH’s programs entered the month with mixed signals across the complex. Profits were captured in the crude oil market where prices ran up more than 15 percent during the month. The sharp rise in crude might be explained by a variety of factors including the OPEC’s announcement not to increase output, slight increases in demand as the summer driving season begins, general speculation and increasing political tension in the Middle East. Unfortunately, profits in crude oil were more than offset by losses in natural gas and London gas oil where price action has been extremely choppy.

**CONCLUSION** – Overall, JWH is pleased with the performance of its programs in May. The positive returns may mark an end to the corrective phase of our programs performance cycle. The movement in the underlying markets may indicate that many of the trends that

drove last year's returns have come to an end. Whether the movements of May signal the start of another run of good performance based on new trends remains to be seen.

In any event, JWH's trading models are designed to limit dollars at risk at the nascent phase of trend development; so we remain ambivalent about the future direction of the markets and confident in our ability to provide the true diversification and potential for excellent long-term returns for our clients regardless of whether the current era of optimism and stability remains.



Kenneth S. Webster  
President and Chief Operating Officer

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PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS