



Research Summary – December 2009

Summary of Opinions

The following is our interpretation of various opinions and statements taken from our research and meetings. This is not meant to be an exhaustive list and the opinions do not necessarily represent the views of Equilibrium. Clients should not act upon the information in this document without consulting their adviser.

General

Who	What	Source
Jim Leaviss, Head of Fixed Interest, M&G	<p>“In 2010 we believe interest rates will remain low, core inflationary pressures will be low and the Bank of England will start to unwind its extraordinary policy stimulus. Our expectations for economic growth, the bank rate and inflation are lower than those of the market”</p> <p>Also believes quantitative easing could be extended.</p>	Citywire.co.uk 8/12/09
Keith Wade, Chief Economist, Schroders	<p>After falling sharply in 2009, headline inflation is forecast to rise in 2010 following the recovery in commodity prices. However, outside commodities, deflationary pressures persist and the US is expected to experience a decline in core inflation (CPI ex food and energy) through 2010. In the absence of further gains in commodity prices, the slack created by the downturn keeps downward pressure on inflation such that the headline rate falls back in 2011.</p> <p>Expects core inflation in the UK to pick up from January as VAT is reinstated at 17.5%. However, this should be temporary and core inflation will peak by spring, and then continue to fall throughout 2011. Headline inflation in the UK should be supported by core inflation over 2010, but is likely to continue to rise in 2011 as growth accelerates.</p>	Email update Dec 09



General (continued)

Who	What	Source
CBI	<p>The UK economy is set to pick up in 2010 but recovery will be fragile. We will exit recession in Q4 2009.</p> <p>UK interest rates will reach 2% by the end of 2010.</p> <p>Oil prices will rise to \$100 a barrel.</p>	Bbc.co.uk 20/12/09
Marion Le Morhedec, portfolio manager, AXA IM	<p>Having endured potentially the worst of the global financial and economic crisis, some encouraging signs are beginning to emerge. Consumer and business confidence levels are rising, Asian trade volumes are improving once more, and the UK and US housing markets at least, are stabilising.</p> <p>Clearly, much of this reinvigoration is the direct result of the massive fiscal and monetary stimulus that is in the global economy. However, it is hard to ignore the longer-term inflationary implications.</p>	Citywire.co.uk 23/12/09
Consensus/Summary	<p>Although inflation will pick up in 2010, most analysts forecast that this will remain relatively weak. However, some believe inflation could rise more sharply.</p> <p>The consensus is that interest rates will only rise slowly, to perhaps 1.5% to 2% at most by the end of 2010.</p> <p>Economic growth is expected to pick up, but remain relatively weak.</p>	



Equities

Who	What	Source
Philip Gibbs, Fund Manager – Jupiter Absolute return fund	<p>People are currently suspicious of equities in general and financial equities in particular, partly because of high government debt and low interest rates.</p> <p>It is “staring you in the face” that certain financials (those who have not received state aid) are undervalued. Specific examples are; HSBC, DnB Nor, Credit Suisse, Sun Hung Kai.</p>	Teleconference 3/12/09
Bill Mott, Fund Manager, Psigma Income fund	<p>“This autumn rally cannot continue for much longer, simply because very low interest rates were not the sole cure that helped us recover from the last bust. Governments have had to take on enormous amounts of debt to bail out the banking sector. Ideally, we must have an anaemic global recovery so the global imbalances can be slowly corrected, without too much dislocation.”</p>	Investment Adviser Dec 09
Henderson New Star chief economist, Simon Ward	<p>“I am optimistic for next year and believe the recovery will continue. The monetary trends I follow, which tend to lead the market by about six months, have been giving and continue to give positive indications for the next six months”.</p>	Investment Week 1 Dec 09
Richard Buxton, Fund Manager, Schroders UK Alpha Plus	<p>Volatility is bound to increase over the next six to nine months, particularly when compared with the relatively straight run seen since March. However, valuations on UK equities are completely supportive and in no way stretched, which should limit the downside during periods of volatility.</p> <p>He sees good returns from UK equities but stockpicking will be key.</p>	Email update Dec 09



Equities (continued)

Who	What	Source
Anthony Bolton, former manager, Fidelity Special Situations	<p>Recommends investors look to move out of cyclical into growth stocks early next year.</p> <p>Bolton, said the 2009 stockmarket rally would peter out and enter into a 'consolidation' phase' next year. This would favour growth stocks over stocks linked to the economic cycle.</p>	Citywire.co.uk 11/12/09
Various	<p>Equities could rise as much as 20% next year as the “sweet spot” for shares will continue into 2010.</p> <p>UBS is forecasting a FTSE level of 6,250 at the end of 2010.</p> <p>By contrast, Cannon Asset Managers are forecasting a fall to 3,300</p>	The Times, 20/12/09
Consensus/Summary	Most analysts remain positive on equities over the next 12 months but expect much slower growth. The consensus is for traditional “defensive” stocks to outperform cyclical stocks. Volatility could increase this year.	



Property

Who	What	Source
Philip Gibbs, Fund Manager – Jupiter Absolute return fund	In the long term an increase in interest rates and repayment of deficits may be slow the recovery, however short term low rates will tempt consumers into property.	Teleconference 3/12/09
Guy Morrell, manager of HSBC Open Global Property	<p>On a 5-year view the asset class should provide “reasonably attractive returns over risk-free assets.”</p> <p>However he questions the bounce in listed property: “Given the lagged impact of the underlying economy on occupier decisions, we can expect conditions in the occupier markets to weaken for some time. The danger is increased demand for investment property drives up too quickly and renders the market unattractively priced. If so, it will be the wrong sort of recovery in that it will be unsustainable and would leave the market vulnerable to further decline”.</p>	Investment Adviser Dec 09
Gerry Ferguson, Fund Manager, SWIP Property	<p>Market fundamentals remain weak. Rents continue to fall fastest in the office sector. They fell by 2.3% in the three months to end-September, although this is an improvement on the 4.1% decline the previous quarter. The lack of new development in the pipeline will act as a significant boost to performance in central London markets once demand levels stabilise. Rents in this market are expected to show the strongest bounce back after 2011.</p> <p>In the retail sector, rents fell by 2.3% in the second quarter and 1.4% in and the third. We expect that retail rents will continue to fall well into 2011 as retailers remain cautious about acquiring new space. There are some signs of improvements in the consumer economy (albeit from a low base). That said, 2010 is likely to bring higher unemployment, higher taxes and a return to 17.5% VAT. All of these could derail the fragile consumer recovery.</p>	Quarterly Update Q4 09



Property (continued)

Who	What	Source
Gerry Ferguson, Fund Manager, SWIP Property	<p>(continued from above)</p> <p>From the end 2009, SWIP expect returns of 7.4% per annum (over three years) and 8.7% per annum (over five years). These forecasts are lower than previous expectations as the rapid falls in yields during 2009 have brought forward into this year some of the return they were expecting in the second half of 2010 and during 2011.</p> <p>There is a risk that yields may fall even further over the remainder of 2009 and early 2010. This could reduce returns further out.</p>	Quarterly Update Q4 09
Simon Rubinsohn, chief economist at the Royal Institution of Chartered Surveyors	House prices will finish the coming year one or two percent higher than at the end of 2009 as volumes continue to increase. The imbalance between supply and demand will continue into the early part of the new year resulting in some further house price gains.	Citywire.co.uk 22/12/09
Consensus/Summary	<p>Generally, there is positive sentiment towards commercial property. However, there remains a general concern that economic conditions remain fragile and this could lead to further setbacks. Prices have moved more than most expectation and there is some concern that returns could be too strong in the short term, harming longer term returns.</p> <p>House prices could continue to move slightly higher on lack of supply rather than strong demand, but if supply picks up then prices could fall further.</p>	



Fixed Interest

Who	What	Source
David Roberts, joint head of fixed income, Aegon Asset Management	“A lot of the time, you are getting paid a high single digit income just to hold the bonds. The easy money has been made, but investors will still be paid for holding credit through the cycle. It is not ‘for all seasons’, but the returns are quite predictable and compare quite favourably”.	Investment Adviser Dec 09
James Foster, co-manager of Artemis Strategic Bond fund	Corporate bonds may not be a screaming ‘buy’ any more, but that there is still plenty of ‘recession protection’ in current valuations. His view is that as long as the Bank of England is buying and interest rates stay low, the outlook for corporate bonds will remain attractive.	Investment Week Nov 09
Jim Leaviss, Head of Fixed Interest, M&G	<p>If the UK budget deficit is not addressed by policy makers, there is a substantial chance that the UK’s sovereign credit rating will be downgraded by one if not all of the credit rating agencies. Should this occur, it would have massive implications for investors in gilts.</p> <p>“We are bearish gilt yields for 2010. This negative view is entirely due to technical factors, rather than a structural increase in inflation. The huge supply of government bonds that are likely be issued to fund government borrowing over the next couple of years will put upward pressure on yields, particularly once the support from ongoing QE buybacks has been withdrawn. “</p>	Citywire.co.uk 8/12/09
Marion Le Morhedec, portfolio manager, AXA IM	Global inflation is likely to pick up so current inflation-linked bond prices offer good value. New issuance of inflation-linked bonds, relative to conventional (fixed income) bonds, is set to remain subdued, lending support to market prices.	Citywire.co.uk 23/12/09
Consensus/Summary	<p>Most analysts remain positive on corporate bonds, although the consensus is the easy money has been made and therefore fund managers will need to be more selective about which bonds they hold.</p> <p>The consensus view on gilts remains negative, however some fund managers believe inflation linked bonds could be good value if inflation picks up.</p>	



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Fund Manager Contact Summary

* Includes other key contacts and speakers such as analysts, economists, and others.

Event	Speaker(s)	Type of Contact
Teleconference	Philip Gibbs, Fund Manager – Jupiter Absolute return fund	Telephone
Meeting	Steve Kenny, Head of Sales, Aegon Asset Management	Face to face
Meeting	Fergus McCarthy, Regional Sales Manager, Martin Currie	Face to face
Teleconference	Mark Lyttleton, Fund Manager, Blackrock UK Absolute Alpha and Blackrock UK Dynamic	Telephone
Teleconference	Keith Wade, Chief Economist, Schroders	Telephone

This month we met two key individuals and had telephone contact with three others.

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Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,190
FTSE 100 – last day of this month	5,412
% change (ignores dividends)	+4.27%
FTSE Allshare – last day of last month	2,648
FTSE Allshare – last day of this month	2,760
% change (ignores dividends)	+4.22%
US\$ to £ - last day of last month	1.64
US\$ to £ - last day of this month	1.61
% change	-1.8%
Euro to £- last day of last month	1.09
Euro to £- last day of this month	1.13
% change	+3.6%
RPI	0.3%
Change from last month	+1.1%
CPI	1.9%
Change from last month	+0.4%
BoE Base Rate	0.5%
Change from last month	0%

Index	Value
UK 10 Year Gilt Yield	4.01%
FTSE Allshare P/E Ratio	12.4x
FTSE Allshare Yield	3.3%
Spread v Gilt	-0.71%
IBOXX Sterling Corporate Bond Index Yield	6.12%
Spread v Gilt	+2.11%

Monthly Portfolio Figures	% Change
Fixed Interest	-0.62
UK All Companies	3.94
UK Large Companies	2.87
UK Dynamic	3.12
Global Established	3.69
Global Dynamic	4.35
Global Speculative	6.14
Alternative Equity	0.81
Property	1.88

Sources: Financial Express Analytics, Indexco.com, National Statistics, Bloomberg, FT.Com, Google Finance, Yahoo Finance