



Research Summary – August 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
Andrew Milligan, Head of Global Strategy, Standard Life Investments	CPI will be close to zero or in negative territory in most major economies in the second half of this year. UK inflation is stickier than in other countries, primarily due to the lagged impact of sterling. The threat of an inflation surprise, in the sense of the CPI well above the MPC's target, remains a medium term possibility, i.e. after 2011.	Email update 10/8/09
Tim Drayson, Economist, Legal & General	if economic data continues to improve, any additional expansion of quantitative easing could be perceived as printing money to fund government spending. It would prove counterproductive if it were to raise inflation expectations and could increase borrowing costs.	Portfolio Adviser, 13/8/09
Tim Drayson, Economist, Legal & General	Believes the CPI steadiness is a short term blip, driven primarily by goods. He believes the CPI should drop though Q3 and Q4	Teleconference, 19/08/2009
Business Confidence Monitor (BCM), the Institute of Chartered Accountants	Business confidence in the UK has risen to its highest level since the start of the financial crisis, boosting hopes that an end to the recession is at hand. Over the weekend Ben Bernanke, chairman of the US Federal Reserve, gave his strongest signal yet that the slowdown is on the verge of ending. "Prospects for a return to growth in the near term appear good."	News Wire, 24/08/2009



General (continued)

<p>Justin Urquhart-Stewart, Director, Seven Investment Management</p>	<p>“It is already quite possible that the UK economy may already be out of recession but really this is a technicality, albeit something that we can take some comfort from. The next stage will be moving into recovery. This then is probably going to be quite a long drawn out affair with periods of low growth and even sinking into reduction again for short periods.”</p>	<p>Portfolio Adviser, 26/8/09</p>
<p>Bob Doll, Global CIO of Equities, Blackrock</p>	<p>Believes there is a possibility that third-quarter GDP growth will be higher than expected.</p> <p>“However, while GDP has historically risen sharply following recessions (the average gain for the first three quarters is 6.7%), we do not believe that will be the case this time. Due to continued weakness in the credit markets and ongoing deleveraging, we are expecting GDP growth to be about half of that average over the next three or four quarters.”</p>	<p>Portfolio Adviser 26/8/09</p>
<p>Consensus/Summary</p>	<p>Where previously there has been much discussions about whether inflation or deflation is the biggest threat to the economy, the consensus now appears to be that inflation is not too big a risk in the medium term.</p> <p>Optimism of a recovery has risen and we may even technically be out of a recession, but it won’t feel like it for some time as the effect of redundancies is only just being felt.</p>	



Equities

Who	What	Source
Connor Browne/ Ed Maran, fund managers, Investec American Fund	Think many US stocks are trading far below what they believe their valuations should be in 2010 and 2011. They can see further recovery in financial stocks as we move out of recession.	Conference call 5/8/09
JP Morgan Global Multi Asset Group	“The US earnings season has just ended with 72% of companies beating expectations, of which almost 60% did so by more than 10%.The positive news on the earnings front has been driven by aggressive cost cutting, which has supported profit margins. However, this process will run into the sand sooner or later and we worry what will support margins at that stage.”	Weekly update 17/8/09
Bob Doll, Global CIO of Equities, Blackrock	Acknowledges that markets have come a long way in a short period of time, which could make stocks vulnerable to some sort of corrective action. However, he believes the prevailing environment is a good one for stocks, and that a cyclical bull market remains in effect, suggesting that equities have further to go in the intermediate term.	Portfolio Adviser 26/8/09
Richard Buxton, Head of UK Equities, Schroders	Thinks it is highly likely that the market will seek out those companies offering genuine revenue growth as against those struggling to progress at all. The valuations of those growth companies could expand significantly against the wider market of low or no growth companies leading to a split equity market.	Email update 20/8/09
Felix Wintle, Neptune US Opportunites, Fund Manager	They believe for the remainder of the year, markets will continue to rise, despite already having rallied more than 27% in recent months. With the effects of Obama’s US\$787bn stimulus plan likely to filter through in the final months of the year, and with new money inflows from those investors who have missed the rally so far, there is likely to be sufficient momentum to sustain the market.	Email Update 20/8/09

equilibrium

Equities (continued)

Bob Janjuah, Analyst, RBS	<p>“Markets will reach a September ‘tipping zone’ when key gauges such as business equipment spending, profits, incomes and jobs will show there won’t be the ‘V’ shaped recovery – and hence immediate economic rebound – “that’s now fully priced into markets”.</p> <p>He sees global stock markets falling back to their March lows, if not lower, with the S&P 500 index plunging to the mid-500s. If the FTSE 100, currently 4,750, moves in line, it would slump towards 2,500.”</p>	Moneymorning 14/8/09
Consensus/Summary	<p>There are mixed views on equities but there is definite concern of a set back after such a strong rally. Plenty of data has been better than expected but much of the negative data seems to have been ignored over the past month.</p> <p>Most analysts expect the year to end higher but only after a difficult Autumn. Analysts seem more optimistic about US and Japanese markets than the UK and Europe.</p>	

equilibrium

Property

Who	What	Source
Andrew Milligan, Head of Global Strategy, Standard Life Investments	The early stages of a recovery in house prices are falling into place but it will be a long drawn out cycle. First time buyers and opportunistic buyers are starting to come back to the market but tight credit conditions will constrain a recovery.	Email update 10/8/09
Tim Drayson, Economist, Legal & General	Commercial property will still fall, but only slightly over the next quarter.	Teleconference, 19/08/2009
Matt Jarvis, Fund Manager, L&G Property Trust	Property returns should continue to be positive, but rental growth will remain negative until 2010. This primarily has to do with sentiment regarding the wider economic outlook. Returns were at -20% at the start of 2009 and are currently at -6%. L&G has invested £16.6 million since June. This shows signs that market is turning.	Teleconference, 25/08/2009
Knight Frank Estate Agents	The property derivatives market now expects a 0.4 per cent increase in capital values between now and the end of this year. In terms of total returns – which include income from rent and capital value growth – the market anticipates up to 11 per cent annual growth over the next five years.	FT.com 21/8/09
Barry MacLennan, Investment Director – Property, Standard Life Investments	In the early 1990's UK property cycle, capital raisings were a key trigger for the subsequent recovery of the direct property market. There has been plenty of capital raising by property companies recently, which have generally been successful. This is just one potential trigger but another sign that the market is recovering.	Email update 26/8/09
Consensus/Summary	<p>There is now optimism that commercial property will start to produce positive returns. Even if no capital growth, most commentators believe that the rental income should more than cover any further capital losses for the remainder of the year.</p> <p>Residential property views remain mixed. The last month has seen the largest monthly price rise since 2004, but many analysts believe this is merely a blip and we could see further weakness in this market.</p>	



Fixed Interest

Who	What	Source
Richard Woolnough, Fund Manager, M&G Corporate Bond fund	Expect inflation and interest rates to stay low for the next one to two years which should be supportive for bonds. Corporate bond spreads remain well above historical averages and they believe there is more credit spread tightening to come as investment grade still looks historically cheap, many issuers are carrying out bondholder-friendly actions and demand has been huge while primary market supply is set to gradually decline.	Email update 28/8/09
M&G Fixed Interest team	Richard Woolnough is very negative on gilts due to the looming huge supply, rather than on 'traditional' gilt market concerns over strong growth and inflation. Jim Leaviss' view slightly differs in that on balance he feels weak growth and low inflation should help support government bond yields despite the surge in issuance.	Email update 28/8/09
Tim Drayson, Economist, Legal & General	Very negative on gilts. When quantitative easing ends there will have to be an exit strategy involving selling gilts back to the market. This could result in much higher gilt yields. He is also concerned about a loss of confidence from overseas investors (who make up 40% of gilt holders). If they start to withdraw yields will have to rise sharply upwards (meaning a capital fall).	Fixed Income focus, August 09
Consensus/Summary	The consensus from fund managers of the past few months that corporate bonds should do well and gilts poorly, continues to hold. Investment grade bonds should continue to do well, with optimism on high yield bonds also rising. However, investors should be very cautious in the high yield area as there is still a high danger of defaults.	



Research Summary – August 2009

Fund Manager Contact Summary

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

Event	Speaker(s)	Type of Contact
Meeting	Lewis Aubrey-Johnson, Product Director, Fixed Interest, Invesco Perpetual	Face to Face
Teleconference	Connor Browne, fund manager, Investec American Fund	Telephone
Teleconference	Ed Maran fund manager, Investec American Fund	Telephone
Teleconference	Matt Jarvis, Fund Manager, L&G Property Trust	Telephone
Teleconference	Tim Drayson, Economist, L&G Monthly Global Macro Call	Telephone
Meeting	Phil Taylor, Analyst, Barclays Capital	Face to Face

In a quiet summer month, we had telephone contact with three fund managers and one economist, and had face to face contact with two other key individuals.

equilibrium

Monthly Figures

Index	Value
FTSE 100 – last day of last month	4,608
FTSE 100 – last day of this month	4,908
% change (ignores dividends)	+6.5%
FTSE Allshare – last day of last month	2,353
FTSE Allshare – last day of this month	2,520
% change (ignores dividends)	+7.1%
US\$ to £ - last day of last month	1.67
US\$ to £ - last day of this month	1.62
% change	-3%
Euro to £- last day of last month	1.17
Euro to £- last day of this month	1.13
% change	-3.42%
RPI	-1.4%
Change from last month	+0.2%
CPI	1.8%
Change from last month	0%
BoE Base Rate	0.5%
Change from last month	0%

Index	Value
UK 10 Year Gilt Yield	3.56%
FTSE Allshare P/E Ratio	11.5 x
FTSE Allshare Yield	3.6%
Spread v Gilt	+0.04%
IBOXX Sterling Corporate Bond Index Yield	6.33%
Spread v Gilt	+2.77%

Monthly Portfolio Figures	% Change
Fixed Interest	3.63
Dynamic Fixed Interest	3.82
UK All Companies	7.51
UK Large Companies	7.3
UK Dynamic	7.77
Global Established	7.35
Global Dynamic	7.79
Global Speculative	3.3
Alternative Equity	2.62
Property	0.73

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