



Research Summary – October 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
Keith Wade, Chief Economist and Strategist, Schroders	<p>In spite of recent signs of recovery, deflationary forces are still at work in the UK. Wage growth is subdued and contributing to this fall in inflation.</p> <p>However, this is the low point. Rising energy prices, a fall in Sterling, and a return to 17.5% VAT are likely to contribute to a muted rise in inflation going into next year. This won't be enough to see much in the way of interest rate rises for some time yet.</p>	Email update 14/10/09
Glenn Uniacke, Foreign Exchange Dealer, Moneycorp group	<p>A number of factors - including rising UK equity markets and a misinterpretation of the inflation story which is now being corrected – have been helping to drive down the pound.</p> <p>Inflation data gave analysts the belief that rates would not rise for a long time, but they don't share that view and feel the falls in sterling looked overdone.</p> <p>“From a valuation point of view sterling, and the dollar, are far too cheap, while QE concerns have also gone to the back of the mind now, and we are quite positive for the pound going into 2010.”</p>	Citywire.co.uk 16/10/09
International Monetary Fund	<p>Only around 60% of the debts in US banks have been written off to date and only around 40% in the UK. There is therefore much more pain for banks to come.</p>	Bbc.co.uk 16/10/09



General (continued)

Who	What	Source
Danny Gabay, Economist, Fathom Consulting	<p>There will be a second wave of the banking crisis in the UK. We've had the first, foreign wave. The next wave will be due to domestic issues.</p> <p>The job market has been slow to adjust and so there is a much larger rise in unemployment to come.</p>	Bbc.co.uk 16/10/09
Consensus/Summary	<p>There is still some concern that not all of the financial problems in the economy have been addressed. Consensus is that inflation will not be a problem until at least the middle of next year. We expect interest rates to remain low for some time.</p> <p>There was some surprise that the latest figures show we are still in a recession as many analysts had expected the UK to have returned to growth. However, growth should resume by the end of the year.</p>	

Equities

Who	What	Source
Marc Shaw, Client Portfolio Manager US Equities, JP Morgan	US equities have never been cheaper due to dollar weakness. The S&P 500 is trading on 19.9 – the biggest discount to the MSCI world since May 2003. 18% of US stocks still have dividend yields above the 10 year Treasury yield.	Citywire.co.uk 20/10/09
BofA Merrill Lynch global fund manager survey	Fund managers' risk appetite has reached its highest level in 3 year – cash levels are at lowest levels since Jan 04, and 2/3rds of fund managers think we will avoid a double dip recession. However, only 38% of fund managers surveyed are overweight equities, but this is rising.	Citywire.co.uk 14/10/09

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Equities

Who	What	Source
Neil Woodford, Fund Manager, Invesco Perpetual Income	<p>Still believes there are more problems in the banks and does not rule out full nationalization. Is concerned about a slip back into recession once government stimulus is withdrawn.</p> <p>He thinks there could be a market set back as it has generally got ahead of itself, although defensive stocks could do well.</p>	Citywire.co.uk 8/10/09
William Dinning, Head of Strategy, Aegon Asset Management	Earnings could surprise positively this month which could give markets a further boost. There is enough support in equities to ensure strong markets for some time to come.	Email update Oct 09
Jeremy Smith, Fund Manager, Neptune UK Equity	<p>Valuations are still attractive and remain below trend on an earnings adjusted basis (10 year earnings).</p> <p>Analysts are being too pessimistic – after downgrading company outlooks last year, they have been very slow to upgrade outlook for any companies despite improved conditions.</p>	Email updated 9/10/09
Andy McCarthy, Fund Manager, Barmac UK	<p>The best of the equity rally has probably already occurred. Banks remain mortally wounded, the government will have to dramatically cut public spending, perhaps by 20%. We will be plunged back into recession.</p> <p>Their Barmac indicator remains in “buy” mode for now, but a fall below 5,000 would see them switch to “sell”.</p>	Email update 13/10/09
Simon Edwards, Fund Manager, Midas Balanced Growth fund	Valuations remain modestly attractive and economies are improving. Combined with the amount of cash on the sidelines and low deposit rates, this makes them cautiously optimistic about equity markets.	Investment update Oct 09

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Equities (continued)

Who	What	Source
Andy McCarthy, Fund Manager, Barmac UK	<p>Their “Barmac indicator” has turned negative. They have moved all their portfolios out of equity and into cash. They expect a big sell off and feel the market could fall significantly.</p> <p>They think the fact that the FTSE Mid 250 has significantly underperformed the 100 all month was an early indicator of problems to come.</p>	Email update 29/10/09
Various stockbrokers	Various share registrars and stockbrokers are seeing net sales of shares or seeing equity holders move into defensive stocks. According to the FT, this could indicate a potential market correction.	FT.com 23/10/09
Anthony Bolton, former fund manager, Fidelity Special Situations fund	The bargain phase of the bull market is over, but he expects the bull run to go on over the next couple of years.	Citywire.co.uk 22/10/09
Consensus/Summary	There is still a big split between those managers and analysts who think the recent recovery will continue, and those who believe it is overdone. The opinion that some of the stocks which have done well look overvalued in comparison with more defensive stocks is becoming more widespread.	

Property

Who	What	Source
Barry MacLennan Investment Director – Property, Standard Life	<p>Until recently, most listed property stocks have traded at large discounts to net asset value (NAV). That is, their share prices have fallen well below the true underlying value of the properties that they hold, due to negative investor sentiment. However, this equilibrium has changed in many listed property markets, particularly in the UK where REITS are now trading at a premium to NAV.</p> <p>This means that sentiment is changing and investors are now much more positive about property.</p>	Email update 1/10/09



Property (continued)

Who	What	Source
James Sullivan, PIIinvests	Believes the upturn in some commercial property prices is partly due to a lack of available stock rather than fundamental improvements in the market. Yields look excellent but are likely to reduce as some tenants will not be able to pay their rent.	FT.com 23/10/09
Legal & General Property team	Have been undertaking a £600 million investment drive to “take advantage or market volatility and capture the rare opportunities that are now unfolding.” They have made more than £100m of acquisitions in the past couple of weeks.	FT.com 23/10/09
Mark Calendar, Head of Property Research, Schroders	Indicators are suggesting an accelerated recovery in commercial property. The income yields are highly attractive and demand is picking up, both domestically and from overseas investors.	Citywire.co.uk 26/10/09
Alastair Bigley, Head of UK Residential Mortgage Backed Securities, Fitch.	House prices will fall substantially from current levels and reverse the recent recovery. They expect a further 17% fall. The long term average earnings to house price ratio is 3.5 x earnings. Properties need to fall further to get to this level.	Citywire.co.uk 8/9/09
Consensus/Summary	<p>Most analysts are now positive on commercial property but residential property is still seen as likely to fall further.</p> <p>There is still some concern that commercial property yields may fall as some rents go unpaid, however most analysts believe that yields are high enough to make property good value despite this potential risk.</p>	



Fixed Interest

Who	What	Source
William Dinning, Head of Strategy, Aegon Asset Management	Credit spreads are now below the levels seen before Lehmans collapse. They are no longer at the excessive, once in 75 year levels they were earlier this year, but are still wide by normal cyclical standards. There is still value in corporate bonds based on this.	Email update Oct 09
Marion Le Morhedec, Portfolio Manager at AXA IM.	Current inflation linked bond prices offer good value, as they think inflation could pick up. Hidden inflation trends remain, such as fuel prices.	Citywire.co.uk 13/10/09
Blackrock house view	They are positive on non government bonds but negative on government bonds. They are concerned that the persistent economic problems could lead to an increase in government bond yields.	Strategy Framework October 2009
Richard Woolnough, Fund Manager, M&G Corporate Bond fund	He has been buying financial corporate bonds of those institutions rescued by their governments, which he feels will not be allowed to default. However, he is cautious on this sector and believes there could be some more problems to come. In his view, the rally in corporate bonds has been indiscriminate and some of those bonds that have rallied the furthest could still see problems.	Monthly Update October 09
Schroders House View	Investment grade bonds continue to see strong mutual fund flows, as investors move funds away from money markets to bonds. Interest rates are expected to stay low for some time. This suggests that IG should remain attractive relative to cash given the strong search for yield amongst investors. However, in fundamental terms they look fair value.	Asset allocation update Oct 09
Consensus/Summary	Returns from corporate bonds are now slowing after a fantastic run since March 2009. The consensus view is that the easy money has now been made, and many investment grade bonds are now fairly valued. Most analysts believe that positive returns from investment grade bonds will continue for some time but at a much slower rate. There is a general negative view on government bonds.	



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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	Mark Lyttleton, Fund Manager, Blackrock UK Absolute Alpha and UK Dynamic funds	Telephone
Meeting	Tom Sheridan, Chief Executive, Seven Investment Management	Face to Face
Teleconference	Richard Woolnough, Fund Manager, M&G Corporate Bond fund	Telephone
Investment Dinner	Tom Elliott, Chief Economist & Strategist, JP Morgan Asset Management	Face to Face
Meeting	David Hutchison, Director, Revera Funds	Face to Face
Meeting	Claire Simmonds, Vice President & Client Portfolio Manager, Global Emerging Markets, JP Morgan Asset Management	Face to Face
Teleconference	Paul Read, Fund Manager, Invesco Perpetual Corporate Bond fund	Telephone

This month we met four key individuals and had telephone contact with three more.

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Monthly Figures

Index	Value
FTSE 100 – last day of last month	5,133
FTSE 100 – last day of this month	5,044
% change (ignores dividends)	-1.7%
FTSE Allshare – last day of last month	2,634
FTSE Allshare – last day of this month	2,584
% change (ignores dividends)	-1.9%
US\$ to £ - last day of last month	1.60
US\$ to £ - last day of this month	1.63
% change	+1.9%
Euro to £- last day of last month	1.09
Euro to £- last day of this month	1.10
% change	+1%
RPI	-1.4%
Change from last month	-0.1%
CPI	1.1%
Change from last month	-0.5%
BoE Base Rate	0.5%
Change from last month	0%

Index	Value
UK 10 Year Gilt Yield	3.63%
FTSE Allshare P/E Ratio	11.8x
FTSE Allshare Yield	3.5
Spread v Gilt	-0.63%
IBOXX Sterling Corporate Bond Index Yield	6.11%
Spread v Gilt	2.48%

Monthly Portfolio Figures	% Change
Fixed Interest	0.63
Dynamic Fixed Interest	-0.38
UK All Companies	-1.69
UK Large Companies	-1.03
UK Dynamic	-1.33
Global Established	-5.11
Global Dynamic	-3.64
Global Speculative	-1.01
Alternative Equity	-0.44
Property	1.7

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