



## Monthly Market Commentary

January 2012

### Review

The Bank of England's Monetary Policy Committee maintained the Base Rate at 0.5% in January and held quantitative easing measures at £275billion.

UK and Global Markets had a positive month as company news and global data, particularly on employment, was better than expected, although uncertainty around the European debt crisis persisted.

The European Central Bank remained preoccupied with the significant sovereign debt of many member states. The Bank launched the Long Term Refinancing Operation (LTRO) to provide an enormous degree of support to Banks and provide a much needed liquidity facility. This has in the short-term gone a long way to addressing the stresses on the Inter-Bank market.

	Index Level	% Change		
	31 Jan 12	January	YtD	1 Year
FTSE All Share £	2933	2.7%	2.7%	-0.3%
FTSE 100 £	5682	2.0%	2.0%	0.4%
MSCI World \$	1241	5.0%	5.0%	-2.4%
S&P 500 \$	1312	4.5%	4.5%	4.2%
	Index Level	Index Level	Index Level	Index Level
	31 Jan 12	31 Dec 11	31 Dec 11	31 Jan 11
UK 10 Year Gilt Yield %	1.97	1.98	1.98	3.66
GBP USD	1.57	1.55	1.55	1.60
GBP EURO	1.20	1.20	1.20	1.17
OIL - WTI \$	98.5	98.8	98.8	92.2
Gold \$	1738	1564	1564	1333
Wheat \$ **	666	653	653	841

The Emerging Markets had an excellent month overall as they recovered from the gloom of December and saw increased investor confidence in markets particularly, in the management of the Chinese economy. This saw rapid inflows of Capital into both Emerging Market Equity and Bond Funds.

Gold had a good month from a performance perspective recovering from the lows of December to the \$1750 level as investors continued their search for a safe haven.

### Outlook

The global economy is experiencing pockets of fragile economic growth at the moment, most notably in the US whilst Europe remains in the doldrums and China continues to forge ahead, albeit at a slower pace and with significant potential downside risks. Our key areas of concern are inflation and global sovereign debt. Our expectations are for market volatility to continue well into 2012 whilst markets remain policy driven. Central banks have indicated that they expect to remain with the current loose monetary policy for some time; this carries the risk of a policy error with inflation exceeding targets for a significant period of time and puts the credibility of some central banks at risk. However, some central bankers are bracing themselves for the potential of a recession in 2012.

The unravelling of the sovereign debt situation in Europe, particularly Greece, Portugal and Italy is particularly unsettling for markets. We do not currently see the euro ending 2012 as it started but how this currency is to be reshaped is not clear. The possibility of the global economic recovery being seriously derailed is a realistic threat from this uncertainty, especially with several of the larger emerging economies revising down their expected rates of growth. We are also concerned about the US debt management plans or lack thereof, particularly in this Presidential election year.

On a more positive note, companies appear to be in reasonable shape globally, and many have strong balance sheets and are maintaining a good dividend policy. Financially companies appear to be in a better position to weather a market downturn than they were in 2008.

The global growth experienced recently combined with slightly less negative global macro news-flow, leads us to be cautiously optimistic on investment markets in the short to medium-term. The periodic setbacks and occasional weaker patches are expected to continue as market sentiment fluctuates and policy makers struggle to innovate solutions. In the long-term, it is our view that markets and the global economy will move forward and grow, albeit below trend.



# Investment Solutions

## Asset Allocation

View	Positive Points	Negative Points
<b>UK Equity</b> Neutral/Positive	<ul style="list-style-type: none"> <li>Companies have strong balance sheets and reduced cost base.</li> <li>Corporate earnings and margins are proving resilient.</li> </ul>	<ul style="list-style-type: none"> <li>Concerns remain on the extent of government and consumer debt as well as the impact of remedial measures as we appear to be in an economic soft patch.</li> <li>Global sovereign debt issues weigh on markets.</li> <li>Profit margins may come under pressure..</li> <li>Earnings expectations are starting to slow.</li> </ul>
<b>Global Equity</b> Neutral/Positive	<ul style="list-style-type: none"> <li>The Global recovery is broadly intact with strong corporate earnings figures, although earnings growth appears to be slowing.</li> <li>Current climate benefits well capitalised businesses with more stable earnings.</li> </ul>	<ul style="list-style-type: none"> <li>Concerns remain on the extent of Global government and consumer debt.</li> <li>Optimistic earnings over the next few years may already be priced in.</li> </ul>
<b>Emerging Market Equity</b> Neutral/Positive	<ul style="list-style-type: none"> <li>Recent weakness has made valuations more attractive.</li> <li>Economic growth favourable demographics</li> <li>Emerging Markets have experienced recent outflows of investment and a sensible retrenchment in market levels.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation concerns as the base effect works itself out. Particularly wage inflation in India/China.</li> <li>EM equity is slightly expensive relative to history</li> <li>Monetary policy and spillover from euro crisis.</li> <li>Volatility in the short-term compounded by currency volatility.</li> </ul>
<b>UK Fixed Interest Gilts</b> Neutral/Negative	<ul style="list-style-type: none"> <li>Government continues to promote fiscal discipline.</li> <li>Continues to be the safe haven investment of choice.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation continues to be above government targets and QE remains in place and possibly extended.</li> <li>Global sovereign debt problems will heighten volatility.</li> <li>Real yields remain unattractive.</li> </ul>
<b>UK Index Linked Gilts</b> Neutral/Negative	<ul style="list-style-type: none"> <li>Inflation continues to remain above target.</li> <li>Limited supply from the DMO and demand remains strong at both the short and long ends.</li> </ul>	<ul style="list-style-type: none"> <li>Real yields remain unattractive.</li> <li>CPI Issuance in 2012 may have a liquidity impact.</li> </ul>
<b>UK Corporate Bonds</b> Positive	<ul style="list-style-type: none"> <li>Spreads remain attractive.</li> <li>Prefer industrial to financial credits due to uncertainty over effect of sovereign debt issues on banks.</li> </ul>	<ul style="list-style-type: none"> <li>Interest rate risk remains a concern.</li> <li>Economic weakness in Europe may lead to spreads widening further.</li> </ul>
<b>UK Property</b> Neutral	<ul style="list-style-type: none"> <li>Reasonable yields, improving rates and increased activity following large flows into the sector make this an attractive asset class only if investing in Prime Property.</li> <li>There is a degree of inflation protection.</li> </ul>	<ul style="list-style-type: none"> <li>Non-prime Commercial Property markets are likely to continue to lag as demand in this area is weak.</li> <li>Growth fears lead to shorter term leases.</li> <li>Government spending cuts are likely to exacerbate the perceived problem in secondary and tertiary property.</li> </ul>
<b>UK Cash</b> Negative	<ul style="list-style-type: none"> <li>Short-term safe haven.</li> </ul>	<ul style="list-style-type: none"> <li>The investment value of this asset class is being eroded by current interest rates being below inflation.</li> </ul>
<b>Absolute Return</b> Positive	<ul style="list-style-type: none"> <li>Expect volatility to be elevated.</li> </ul>	<ul style="list-style-type: none"> <li>Non trending markets can cause problems for directional strategies resulting in short term underperformance.</li> </ul>

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