

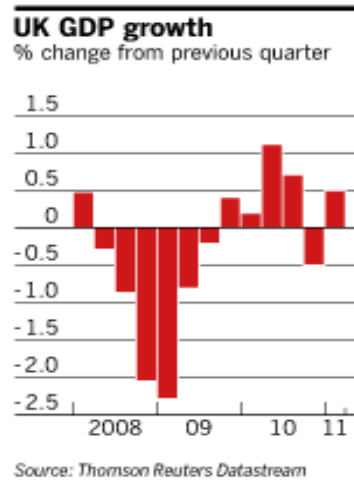
MARKET OUTLOOK FOR MAY 2011

Global Investment Strategy

Although last month proved to be the hottest April in over three hundred and fifty years, investors remained unfazed and the FTSE 100 Index registered a gain of around 2.7% over the month, bringing the index back to levels not seen since the summer of 2008, just before the financial crisis began to unravel.

The majority of committee members of the UK's Monetary Policy Committee received a surprise endorsement of their current policy of holding rates at their historic lows, with the Consumer Prices Index reading for March showing a fall to 4% from 4.4% in February.

Preliminary figures, released by the Office for National Statistics, showed that GDP in the first quarter of the year, grew by 0.5% and whilst the Chancellor, George Osborne, welcomed the "good news that the economy has returned to growth", this figure merely reverses the contraction witnessed in the



fourth quarter of 2010 but it is likely to be revised downwards.

This again has Economists divided on the potential timing of any tightening in monetary policy from the MPC. The consensus now appears to be for interest rates to rise no earlier than the autumn, much in line with our earlier comments although a disappointment to arch-Hawk Andrew Sentence who attends his last MPC meeting in May.

Unusually, in the US, Federal Reserve Chairman, Ben Bernanke has followed the lead of his European counterpart, hosting for the first time, a press conference following April's FOMC meeting. At the conference, "Big Ben" confirmed that the committee felt enough had been done to end QE2, as scheduled, in June. Growth forecasts for the US economy have now been lowered and are predicted to show growth of 3.5% for 2011 and between 3.5%-4.2%, in each of 2012 and 2013.

Although not ruling out entirely the possibility of QE3, this appears to be on hold and of more significance is the priority to reduce the fiscal deficit in the US which has been brought to the fore by the International Monetary Fund and was quickly followed by credit



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ratings agency S&P downgrading their outlook for the nation from stable to negative, for the first time since 1941.

In Europe, Portugal finally ceded to the pressures of the financial markets and agreed an estimated €78billion bail-out package from the European Financial Stability Facility and the IMF, on un-

disclosed terms. Jose Socrates, the country's caretaker prime minister who is standing for re-election on 5 June, indicated the terms were more favourable than those achieved by Ireland and Greece and the country does not require to implement any additional fiscal measures for 2011.

In Greece, there has been speculation that the country will again have to restructure the terms of its bail-out package, following comments, in April, from a senior official that the country may require "more time" for its repayments. Whilst there have been no further developments in Spain, the Eurozone debt issues seem far from resolved and a further concerted effort from the authorities may be required.

In the BRIC (Brazil, Russia, India and China) economies, the authorities continue to struggle with inflation and despite repeated efforts to stem rising prices, measures implemented so far have had little impact. Brazil recently raised their benchmark interest rate by a

less than expected 0.25%, to 12%, signalling that as well as using interest rates, the central bank may rely on other tools to cool the current inflation rate of 6.44%. In China, following a series of interest rate increases, the People's Bank of China increased banks' reserve ratio requirements, to tighten liquidity. However, it seems India has the biggest battle on its hands as headline inflation is running at just under 9% which is twice the official target of 4-5%, despite another rate increase from the Reserve Bank of India to 7.25%.

Although the full extent of damage, both humanitarian and economical, in Japan has yet to be felt, figures for March showed a record fall in the country's output of 15.3%.

Commodities

Providing a further boost to the demand witnessed for gold, central banks throughout the world have turned net buyers of the metal in the last year after twenty years of selling and recently the Mexican Central Bank purchased just short of 100 tonnes of gold. This trend is developing in emerging economies with large dollar reserves, as they seek to diversify their assets and in part dispels the myth that the rise in the price of gold has been driven by speculators and increased demand from product providers, such as Exchange Traded Funds.

We have in recent commentaries highlighted the issue of food inflation and how demographics throughout the world are impacting

on the demand, and subsequent pricing, of food commodities. An excellent example of this can be seen in the demand for coffee, where the price of Arabica beans has been trading at its highest levels for 34 years. Whilst demand for coffee continues to grow in western developed markets, demand in emerging markets is around four times the pace and it is now anticipated that by 2015, emerging economies will overtake the west in their consumption of the product.

Currencies

The dollar's short-term bounce, on the news of Osama Bin-Laden's death, proved short lived and the greenback has returned to trading close to its three year lows against the euro, as traders anticipate a prolonged period of low interest rates, following Mr Bernanke's press conference. This coupled with the European Central Bank's pre-emptive interest rate increase due to inflation concerns, has seen strength in the euro at the expense of the dollar, despite the Portuguese bail-out plans.

Bonds

As Banks seek to increase their capital bases, ahead of Basel III, companies have been quick to re-finance their debt from the bond markets and in the high yield arena, bond volumes have increased by almost 35% over the same period last year and show the largest year to date total on record. With companies ranging from Spanish gaming companies to French container companies tapping the markets, we remain selective of the asset managers used to access this area, for client portfolios.

Conclusion

Whilst markets have proved relatively resilient this year, in the face of major challenges for policymakers and investors alike, we are now entering the summer months when the old adage "Sell in May and go away, don't come back 'til St Leger's Day" starts to appear in the media. Recent indications from the VIX index, which measures market volatility, are at all time lows and we believe that although markets may remain quiet over the summer months, going into the third quarter we shall have more conclusive evidence of the strength of the economic recovery and its likely sustainability. First quarter corporate results are in many cases beating expectations and this should filter through to dividends which in turn will provide an attractive return to investors over the year, whilst equity valuations remain undemanding.