



## MONTHLY INVESTMENT REVIEW

April 2011

### ECONOMIC AND MARKET BACKGROUND

Conflict in the Middle East and the devastation caused by the Japanese earthquake has moved into the background in terms of the financial market's thinking, with the dominant theme returning to the stage of the economic cycle and the implications for monetary policy. With increasing signs of recovery in the developed and in moderation emerging economies there is less dispersion of growth rates throughout the World than for a number of years and the likelihood that global growth will return to pre-crisis levels for the first time since the beginning of 2008.

Germany and the US are producing the greatest growth in the developed economies that should match pre-crisis levels with the UK and peripheral Europe continuing to lag at pre-crisis levels because of the effects of the various fiscal stabilisation plans. Against this positive growth environment corporations are currently performing well currently and are optimistic about the future in both the manufacturing and service sectors. Unemployment, which has been persistently high in many regions, is belatedly responding in a positive manner albeit with the largest declines in the emerging economies with the advanced economies lagging.

Inflation has picked up in most countries due to the rise in commodity prices, abundant global liquidity and less excess capacity in many areas. Together with the improving labour market the question now is when monetary policy will move from the very accommodative stance of the last three years to a more normalised level. Even with modest tightening real rates are low by historic levels and with commodity induced inflation set to remain high they are unlikely to rise significantly in the near term. The combination of accommodative monetary policy in the presence of strong economic growth reflects the political pressures induced by high levels of inflation.

With corporate optimism high and monetary conditions continuing to be supportive the background for equity markets continues to be positive albeit less so than last year. There are risks which could clearly undermine confidence or put pressure on the authorities to tighten the policy faster than they appear to want to. Foremost are the inflationary pressures resulting from higher commodity prices, especially oil. An oil price of \$110 is estimated to reduce global growth by approximately 0.2%. In the context of a growth estimate of 4.3% this is not a material impact but it will add to inflationary pressures and complicate the policy responses. With emerging economies, especially China, leading the recovery engineering, the changes in monetary policy currently being attempted are fraught with difficulty. Financial markets could easily become nervous about signs of slowing growth.

Within the equity markets volatility initially rose with concerns about the consequences of the Japanese earthquake only to subsequently subside following an apparent stabilisation of the situation. The longer term (monthly) trend remains in tact as does the intermediate term (weekly) trend having tested important areas of support and rallied. This is exactly as it should do and provides comfort about the strength of the underlying trend despite the macro concerns mentioned previously.

Sector rotation has continued this month as the mining sector which produced such poor returns during January and February has recovered much of the lost ground. It is likely that this type of rotational behaviour will continue until clarity emerges about where interest rates are going to settle.

## ASSET ALLOCATION

We have increased our allocation to emerging markets following a clear break of the downward trend in place since late 2010. This implies that the monetary tightening in China may be coming to an end and goes some of the way to explaining the moves in the mining stocks discussed above.

## EQUITY STRATEGY

Markets remain very rotational as evidenced by the re-emergence of the mining sector as a market leader in March following its marked under-performance earlier in the year. Financials, as is to be expected in an environment of rising interest rates, keep breaking out in relative strength terms only to fail to provide any follow through. Until greater clarity emerges about monetary policy this sideways rotational type of market is likely to persist. Now is not the time for large sector positions.

## IMPORTANT INFORMATION

The information in this document is believed to be correct but cannot be guaranteed. Opinions, interpretations and conclusions represent our judgement as of this date and are subject to change. Past performance is not a guide to future performance and might not be repeated. The value of shares, and the income derived from them, may fall as well as rise. The information contained in this publication does not constitute a personal recommendation and the investment or investment services referred to may not be suitable for all investors; therefore, we strongly recommend you consult your Professional Adviser before taking any action. All references to taxation are based on current levels and practices, which may be subject to change. The value of any tax benefits will be dependent on the individual.

FOR MORE INFORMATION PLEASE CONTACT US ON:

**0870 1500 900** visit **[imassetmanagement.com](http://imassetmanagement.com)**

or email **[clientservices@imassetmanagement.com](mailto:clientservices@imassetmanagement.com)**