MONTHLY INVESTMENT REVIEW

November 2011

ECONOMIC AND MARKET BACKGROUND

While an objective assessment of the economic and corporate landscape throughout the World suggests that, Europe aside, the picture is reasonably positive economically albeit with a number of problems, this analysis is not complete. Political activity, more so than at anytime in the recent past, is dominating investor sentiment and market activity. In the US there is still no sign of the bi-partisan budget agreement, which is due late this month, being put in place. This though is insignificant when compared to the problems in Europe where the political leadership appears incapable of either proposing any meaning solutions to the debt and growth problems or actually implementing what they manage to come up with. The crisis has taken a more worrying tone in recent days as the problem has spread from Italy to Spain and is now affecting France. Pessimistically, it is difficult to conclude that this will lead to the break up of the Euro area as no solution to the domestic economic problems appears to be forthcoming. Alternatively, such are the pressures it maybe that finally a meaningful solution will be proposed and implemented. Unfortunately, what would have worked one year or even six months ago will no longer be sufficient to regain credibility for the Euro. If a solution does emerge, and it is our assumption that it will, it is going to have to be radical to make any difference.

Against this background what has surprised us has been the relative resistance of many equity markets throughout the World. Given the Euro problems we would have expected far greater declines for most European markets, including the UK. Ironically, the Far East has been the region hardest hit by the tighter monetary policy being pursued in many countries. There are tentative signs that the period of tightening in many countries is coming to an end but it is early days and certainly the prospect of policy easing is not on the horizon (something China recently confirmed). Events in Europe may change this stance were they to deteriorate further.

Turning to our assessment of market trends the picture is no clearer as it is proving difficult for most markets to gain traction in one direction or another. Whipsawing, that is where a signal is given only to be reversed soon after with a signal in the opposite direction, is a real problem at the moment and so we are taking very limited positions within the funds until greater clarity emerges.

Fixed income markets appeared to have reached a peak and were beginning to suggest a decline was immanent whereas equity markets were suggesting the opposite. Over the last week these apparent reversals have been thrown into question as a number of fixed income markets have stopped their declines and are pushing to new highs for the year. Equities, on the other hand, have fallen below key levels having failed to move clear of the 200 day moving average on the up side following the initial break four weeks ago. In such circumstances we have been increasing our cash and bond holding.

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