

Investment Manager Commentary

End 1st Quarter 2011

Overview

The final quarter of 2010 proved to be a very rewarding one for equity investors, buoyed by further Quantitative Easing in America, and good corporate results. Thus hopes were high that this mood would carry through in to the New Year, despite the many problems that lurked in the background.

It was an unlikely side effect of Q.E. that caused the first of many upsets in the quarter; the massive amounts of money that has been pumped in to the system has mostly found its way in to financial assets, and commodities. Silver, for instance, rose 80% last year. However, nobody expected wheat to rise by more than 50% in the second half of last year, on the back of a similar rise in the price of oil.

The correlation between the two is striking; as the oil price climbs, more wheat is diverted in to producing bio fuels, now 40% of the crop in the USA. In countries such as Tunisia and Egypt that have no oil assets, upwards of 50% of household budgets are spent on food. Add to this high youth unemployment, the advent of the internet as a means of mass communication, and endemic corruption and you can see why these revolutions have taken place.

On their own, these countries are of no economic significance, but the threat of contagion in to the Middle East derailed markets. Other problems included the earthquake in Japan and the continuing difficulties on the periphery of the euro zone.

Despite all this, markets finished the quarter pretty much all square. The debate continued as to whether the rise in inflation caused by the above factors is a one off, or more pervasive. The ECB fell in to the later camp, and raised interest rates, a move likely to be followed across the developed world.

Outlook

Economic recovery in the developed world continues to progress albeit that it is choppy. Emerging markets, which have not really had a recession, are benefiting from the positive dynamics in China and India; forecasts for global GDP growth are around 5% for the year. Without the numerous problems mentioned above, we feel that equity markets would be higher than current levels.

CDO

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