Investment Manager Commentary

End 4th Quarter 2009

The recovery in global equity markets, which started in the Spring, continued in the final quarter, albeit at a reduced rate. The MSCI World index added 3.2%, whilst the equivalent bond index fell by 2.9%, both measured in Sterling.

Equity markets were helped by major central banks keeping interest rates at exceptionally low levels, and indicating that this would be the stance going forward. Company results have, generally, been supportive, but improvements have been a result of cost cutting, rather than top line sales growth.

Whilst equities over the quarter produced a positive return, it was not all plain sailing. Indeed, October was negative, as investors started to look for evidence that the rally, driven by an improvement in sentiment, was not built on sand. One of the effects of the quantitative easing program has been to achieve a suspension of reality; most asset prices are off the bottom, some substantially so. Domestic property prices would appear to have stabilized both in the UK and America, albeit on low volumes, whilst commercial property is now the must have asset class.

However, the debts that fuelled the previous boom remain. To keep economies going, governments have borrowed vast sums not only to cover revenue shortfalls, but also to act as spender of the last resort. Such is the problem in Greece, where they cannot produce any reliable economic data, or a political consensus to tackle the problem. This led to a ratings downgrade, and a fall of 20% in equities. Other members of the Euro with deep problems include Portugal, Spain and Ireland, testing the whole system as never before.

Gold has continued to find favour, as these problems mount.

Outlook

Governments are likely to withdraw stimulus programs as we move in to the first half of 2010, and the question then is whether economies have enough underlying momentum to sustain the recovery, the alternative being a double dip recession.

Growth has continued apace in the emerging markets of China, India and Brazil and this will be supportive for exporting countries, particularly those with weak currencies.

The market in the UK will become increasingly overshadowed by the political situation, where an election must be held by June. Changes in the opinion polls will produce volatility, whilst any indication of a hung parliament, or the return of the incumbents, would be very detrimental.

We continue to maintain a cautious stance as these factors play out.

CDO, January 18th, 2010