Investment Manager Commentary

End 4th Quarter 2010

Overview

The quarter finished on a positive note, December proving to be a strong month in nearly all markets. Thus calendar 2010 saw gains in the World Index +9.5%, S&P 500 +12.7%, FTSE 100 +9% and the FTSE Euro top 100 +4.1%. As ever, there were marked regional differences with Spain -17% whilst northern European markets were up 30%.

Sovereign debt became the main focus point with bailouts being arranged for both Greece and Ireland. Nor is this over, by any means. Spreads remain very high, and further bailouts will likely be needed in Portugal and Spain. It is unlikely that Germany will allow the euro zone to collapse, but the problems run very deep.

In America, the Fed launched a new version of QE2, in response to slowing growth. This raised expectations of inflation, and was the main reason behind the rise in markets through the Autumn. Corporates are performing well, with earnings per share expected to show an increase of 34% for the year, but it remains a jobless recovery, with unemployment stuck around the 10% rate.

The UK elections produced the first coalition government for many a year, and work immediately started on scaling back the budget deficit, and reducing the scale of central spending, which now accounts for more than half of GDP.

The world economy is thought to have grown by 4.9% overall, with developed economies producing 2.6%, and emerging 7.7% Consensus forecasts are for a similar rise in 2011.

Outlook

Economic recovery is well underway, although big problems remain, particularly in the euro zone. There is also a risk of overheating, and inflation, caused by the rise in all commodity prices.

However, equities have derated considerably, and offer good value. We therefore expect to see further progress this year.

CDO

January 17th, 2011