

Bull or Bear?

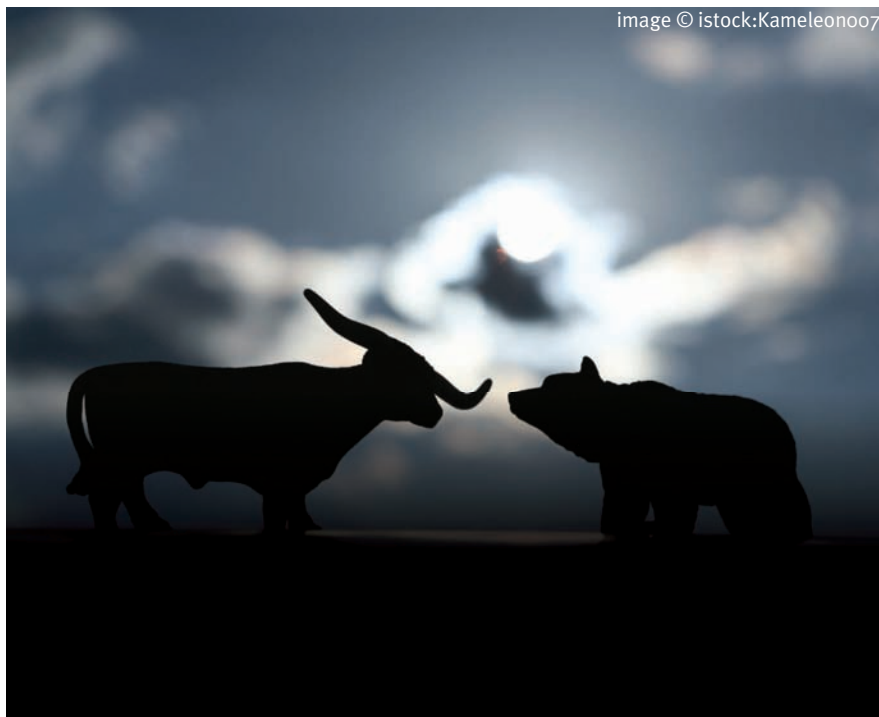


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The pundits are split over their outlook for capital markets in 2010; are you a bull or a bear?

Bulls

GLOBAL MARKETS

Ashburton the active investment manager predicts: “Economic recovery may be stronger than expected, policy and country specific risks are rising in both developed and emerging markets, equities are our preferred asset class (although the ride may be bumpier next year), short-dated US and UK government bonds offer poor risk/reward characteristics and the US dollar rebound is likely.”

Keith Wade, chief economist at **Schroders** predicts that the current global rally is likely to continue into 2010 with emerging markets leading the economic recovery, whilst the sweet spots of low interest rates and rising profits should continue to drive assets through 2010.

Credit was the winner of 2009, 2010 is the turn of equities Robert Quinn, European Equity Strategist at **S&P Equity Research**. “Equities are our clear preferred asset class and are in our view more attractive than credit, cash or real estate.” Our European economics team’s central forecast is for 1% and 0.9% GDP growth for 2010 in the eurozone and UK respectively, followed by 1.6% and 2% in 2011.

More stimulus packages early in 2010 will increase the chances of inflation further and drive investors towards assets they perceive to hold real value, including commodities and property, according to **Moonraker Fund Management**, the independent investment boutique.

EMERGING MARKETS

“Debt levels in many emerging economies are low, banks have not been as adversely affected by the credit crunch and consumer spending is not hampered by past debt accumulation,” says **Invesco** chief economist, John Greenwood. “The case for expecting emerging economies to grow more strongly than developed economies has been strengthened.”

Marcus Svedberg, chief economist at **East Capital** on the outlook for Eastern European markets: “There are notable signs that the region is not only recovering but is about to enter a period of more normal development. There is, however, a wide spread in the region, and for some of the worst-hit economies in the region, such as the Baltic states, the recovery period will be longer and could last well into 2011”. ■

Bears

GLOBAL MARKETS

KPMG warns: “There is a risk of some substantial falls in asset prices in some markets this year. Since the trough of March 2009, we’ve witnessed huge price rises, often 50% or more. As the government takes its foot off the gas in terms of support, we may find that the market has gotten a bit ahead of itself and prices may take a tumble as a result. These price changes will likely result in changes to the flow of funds. Investors may take back their cash; move it into cash deposit products, particularly as interest rates are predicted to rise.”

Andrew Milligan, head of global strategy at **Standard Life Investments**, said: “After most OECD recessions, the first year or two of recovery normally see a very sharp recovery. On this occasion, 2010 is not expected to be a year of above trend global growth, constrained by such factors such as the lack of credit from a weak financial sector as well as tighter fiscal policy.”

Neil Dwane, CIO Europe for **RCM**, spies three trends: “USA and other OECD countries will see a dull return to growth, below historic trend levels. The end of quantitative easing threatens the stability of all financial markets if handled badly

and emerging markets will power the global economy from here.”

Simona Paravani, global investment strategist at **HSBC Global Asset Management**, says: “While liquidity levels should continue to offer support into 2010, government stimulus packages will be likely withdrawn, posing a risk for stronger economic growth, company performance and share prices. As consumers and governments continue to pay down excessive debt levels, we believe unemployment will add a further check to consumer spending growth. Although uncertainty on the strength and sustainability of recovery should keep pressure on volatility levels in 2010, we favour a moderate underweight to equities relative to cash, and prefer defensive sectors over more cyclical areas, owing to more favourable valuations.”

Carl Hess, global head of investment consulting at **Watson Wyatt**, said: “The ramifications of the sudden and substantial losses will be played out for many years to come. Regardless of how investors have fared in the recent past, they will now be focusing even more on risk management and reassessing their governance arrangements to ensure investment returns are more secure in future.” ■