

sunshine and showers



December 2009

The forecast for the global economy remains unsettled in the short term, with equal periods of opportunity and volatility, says **Bill McQuaker**.

The outlook for global markets continues to brighten, despite insistence from many market participants that the storm clouds are soon set to burst. The collapse in corporate profitability is close to an end, according to recent reports from the British Chamber of Commerce. Corporate newsflow continues to provide investors with sustenance and top line growth has been clearly visible in the past couple of months in some sectors. Macroeconomic data has mostly been pointing towards recovery and growth, and on a far broader scale than previously expected. Purchasing managers' index (PMI) data released in the US early in November pointed to a significant rebound in manufacturing. Closer to home, composite PMI data for the Eurozone rose ahead of expectations, but the improvement was marginal and somewhat disappointing relative to its global counterparts. In the UK, PMI services data rose at the fastest pace witnessed in more than two years.

The naysayers are correct, however, in pointing out that it is still wholly feasible for the UK economy to continue in recession, especially after stimulus is removed. Consequently, current monetary stimulus is likely to remain in place until a noticeable improvement in key economic indicators, such as peaking unemployment rates. In

these circumstances, risk assets – equities and corporate bonds, for example – should continue to do well, but will continue to be vulnerable to disappointing newsflow.

asset allocation will be key

As we prepare to say farewell to 2009, the outlook for 2010 remains skewed to the upside, but with sizeable uncertainties that could have a considerable impact on returns in the near term. One of the biggest questions for investors next year will centre on asset allocation. In 2008 diversification was by and large a failure, with only a few asset classes (cash, gilts and overseas bonds) managing to deliver positive returns. In 2009, UK and overseas equities and investment grade credit have been the asset classes of choice, while gilts have delivered a negative return. This year has been all about steadying the ship and steering a course away from self-destruction. The likelihood is that 2010 will see further fresh challenges and, within the market and real economy, volatility is likely to keep everyone on their toes. Therefore, fund managers capable of making sound asset allocation decisions and displaying a flexible, pragmatic approach will be much in demand. ●

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the Henderson Multi-Manager Distribution Fund

My own team's approach to these challenging market conditions is demonstrated in the performance of the Henderson Multi-Manager Distribution Fund that has delivered a return of 15.3%* for the year to date (at 30 October 2009), which compares well against the average return of 12.7%* for the IMA Cautious Managed sector. The fund has achieved first quartile status over one, two, three, four and five years, which suggests that our investment process is well suited for both bull and bear market conditions. Recently we have taken the opportunity to rebalance the portfolio a touch, increasing our equities exposure on the down days, adding to our short position on government bonds and reducing our currency risk on the view that sterling could strengthen in the short term. We have also been reducing our exposure to corporate bonds, reallocating capital into strategic bond funds, which have the added flexibility of taking additional risk via the high yield bond market without adding duration.

The Henderson Multi-Manager Distribution Fund is available on the Skandia Investment Solutions platform.

*Source: Morningstar, mid to mid, net income reinvested, GBP
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