

Press Release



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Newton* believes outlook for 2010 unlikely to be driven by a traditional consumer-led recovery

Defensive sectors and developing economies set to be key investment focuses

London & New York, 12 November 2009 - In a recent panel debate on the outlook for global markets in 2010, a team of Newton's global fund managers agreed that a 'traditional' consumer driven cyclical recovery appeared unlikely in the face of continued household debt and high levels of unemployment. High quality defensive stocks and exposure to developing economies emerged as some of the key investment focuses for 2010.

Opening the discussion, Iain Stewart, Investment Leader, global funds at Newton, commented: "We're entering a less leveraged and higher savings environment which means that both the supply of, and demand for, credit are likely to be significantly reduced. As a result of this, we are entering a structural rather than a cyclical change which may last for many years to come.

"Our theme-led approach helps to identify sectors that we believe will benefit from the continuing change in financial markets. We are fully invested to take advantage of this change by focusing on very high quality defensive areas as well as those companies we believe stand to benefit from growth in emerging markets."

Ben Russon, Investment Manager – UK Equities, added: "Many UK companies have positioned themselves for a more bullish outlook than we expect. With the pressures of unemployment, levels of debt and restricted access to credit for the foreseeable future, recovery is likely to be fragile and elongated. We are therefore currently avoiding economically sensitive areas of the market and are positioning ourselves in non-cyclical sectors where we see the best value in line with our thematic investment approach."

Looking to Europe, the feeling was that it had not experienced the property bubble that had hit the US and UK markets and many European economies entered the recession with lower levels of leverage. Raj Shant, Investment Leader, Pan-European equities, suggested Europe was better positioned for a recovery than other developed markets.

He said: "With the European Central Bank pumping money into Europe's money markets as far back as the summer of 2007, Europe has been better placed to weather the recent crisis than the US or the UK. Also, the announced government stimulus programmes will likely have more of an economic impact in 2010 than they have to date."

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He added that European growth was also less reliant on consumers and more export driven, an area which was seeing strong recovery boosted by demand from the emerging economies. However, he cautioned that the Euro's continued strength may start to impinge on exports and become a source of dispute with trading partners.

Looking ahead, Shant said Germany's recovery as the engine of Europe could see the European Central Bank raising rates next year, putting pressure on the weaker peripheral economies.

Simon Laing, Investment Manager, US Equities, was just as pessimistic about a lasting recovery: "Whilst the short term outlook remains positive, the sustainability of growth beyond 2010, with consumption unlikely to rise significantly, will need to be driven by a return of private investment spend. The risk of tax increases and government policy mistakes will likely handicap this. "

Increased mergers and acquisition activity is likely to be the next driver of growth in many Asian markets, according to Jason Pidcock, Investment Leader, Asia-Pacific Equities. "With Asia in line with the 10 year average, markets could easily go higher, driving leverage buyouts and cross border trades as we saw at the end of the mid-1980s boom," he said. "Many Asian companies should benefit over the longer term from the relative strength of their balance sheets, with corporate indebtedness significantly lower in Asia than in the US and Europe".

Charlotte Ryland, Investment Manager, global funds said: "We are currently undergoing a period of global realignment whereby Western economies are in the midst of adjusting to lower growth, lower levels of leverage and significantly more regulatory oversight of the banking system. As a result of this realignment, the developing world continues to present longer-term investment opportunities, particularly those countries able to stimulate domestic demand such as China, India and Brazil.

"Equity risk should remain biased towards relatively economically insensitive sectors with stable cash flows and visible earnings such as telecoms and medical technology. Commodities such as oil remain interesting, driven by new sources of demand and declining production."

Iain Stewart fuelled this cautious approach to the next few years, concluding: "While we cannot predict the shape of the recovery, our theme-led investment strategy enables us to take advantage of those sectors that are positioned for growth over the coming years. We believe our defensive positioning will ensure that we emerge in better shape than those investors who have put all their money in very high beta stocks."

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