

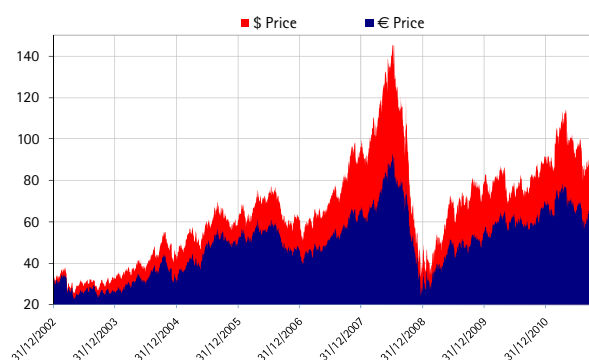
## Market Themes

December-2011

- November saw the sovereign debt crisis entering a new phase, with contagion spreading to France and Belgium, where bond yields rose dramatically.
- Even the safe haven of Europe was not immune, as a German auction of ten year bonds failed to attract sufficient bidders for the amount on offer.
- The new President of the ECB, Mario Draghi, cut rates on his first day in office and gave broad hints that more rate cuts will follow. Furthermore, he has suggested that the ECB could step up its purchases of peripheral bonds as a quid-pro-quo for a broader agreement from Europe's politicians on tackling fiscal problems in the Eurozone.
- This has enabled some element of calm to return to financial markets with spreads on periphery bonds tightening and equity markets recovering from losses of more than 5% to end the month up +0.3% (+6.9% for the quarter, -10.1% year-to-date).
- Economic data continued the pattern of recent months, with weaker than expected data in Europe and stronger than expected data in the US. Chinese data continued to moderate, adding to concern about global economic growth.
- The euro weakened by 3% against the US dollar, reversing the gains of the previous month
- Global earnings estimates continued their recent trend of downgrades during the month of November. In terms of regions, Europe and Japan had the strongest downgrades, while US equities estimates held up best during the period, suffering only marginal downgrades.

At a broad sector level, Healthcare (+2.8% on the month, +2.2% year to date), Energy (+2.8% on the month, -4.5% year to date) and Utilities (+1.9% on the month, -7.8% year to date) were the best performers. Financials were the worst performers (-3.6% on the month, -20.7% year-to-date), followed by Basic Materials (-1.3% on the month, -20.7% year-to-date).

### OIL PRICES



- The US S&P 500 was the best performing market in euro terms, rising by 3.2% on the month (-1.5% year-to-date), followed by Emerging markets (+1.7% on the month, -15.7% year-to-date), Canada (+0.9% on the month, -11.9% year-to-date) and the ISEQ (+0.9% on the month, -4.7% year-to-date). The Australian market reversed some of October's gains, falling by 3.9% on the month (-13.5% year to date), whilst the DJ EuroStoxx fell by 2.6% on the month (-17.4% year-to-date).

## Strategy Changes

- We increased our equity exposure towards the end of the month, targeting German, US and Japanese equities on a regional basis, and basic materials, and energy on a sectoral basis.
- At a sector level we remain overweight healthcare and energy while underweight financials.
- Within our bond portfolios, we have reduced our underweight in periphery bonds (where we are now neutral). We remain overweight Norwegian bonds and underweight German bonds.

## Market Outlook

- All of the above highlight increased uncertainty, and hence increased volatility in financial markets, a feature we expect will continue.
- Economic data in the US continues to suggest moderate, positive growth, with more recent data indicating a further gain in momentum. European data remains weak, and consistent with recession.
- Using various valuation measures, all equity markets are trading at significant discounts to recent history. Regionally, Japanese and Asian markets are the most compelling in valuation terms as they are currently trading at the greatest valuation discounts relative to recent history.