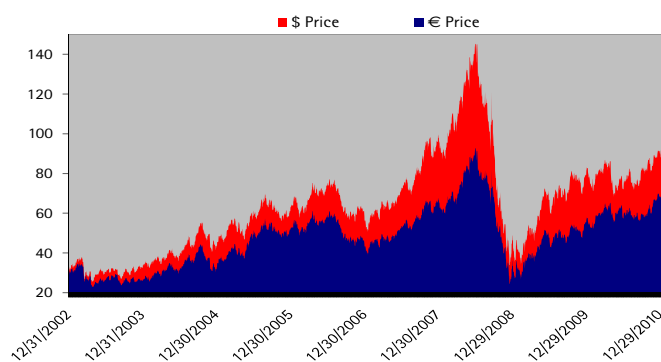


## Market Themes

March– 2011

- Tensions across the Middle East began to spread during the month with large scale protests in Bahrain and Libya being of major concern, the former because of its geographical proximity to Saudi Arabia's chief producing oil fields and the latter because of the likely direct impact on oil supply.
- The immediate reaction was to drive oil prices higher, the oil price breaching \$100 per barrel for the first time since 2008. Whilst the near-term impact of higher oil prices is inflationary, higher energy prices are seen as a drag on growth, thus reducing growth expectations.
- The global equity market was more than 4% higher in the early part of the month. However the Middle-East tensions led to a correction and equities finished the month just 2% higher.
- Economic data over the month continued to be stronger than expected, particularly for western economies where forward looking indicators are reaching multi-year highs. Forward looking data for Japan also improved, the Purchasing Managers Index remaining above the critical 50 level for the second month running, indicating expansion in manufacturing activity. While the pace of growth in China has clearly slowed, inflation is on an upward trajectory with the 6-month annualised pace reaching 9.4%.
- At a sector level, Energy was again the best performer, rising by 5.6% on the month for a gain of 8.3% ytd. Basic Materials rose by 2.6% on the month (-2.1% ytd), while Technology (+0.1% on the month, +1.3% ytd), Industrials (+0.7% on the month, +0.5% ytd), Utilities (+0.8% on the month, +0.4% ytd) and Telecoms (+1.4% on the month, -0.1% ytd) lagged.

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- At a regional level, Canada was the best performer, rising by 6.7% on the month (+4.1% ytd), followed by the ISEQ (+4.3% on the month, +3.2% ytd) and Japan (+4.0% on the month, +1.6% ytd). Emerging markets lagged, falling by 0.7% on the month to show a 6.9% drop ytd.

## Strategy Changes

- We remain overweight equities in our balanced portfolios.
- On a sectoral basis, we have reduced our exposure to Consumer Staples, where we are now underweight. We have increased our exposure to Basic Materials, Energy and Technology and reduced our underweight in Financials, where we now hold a neutral position. Portfolios are also overweight Energy and underweight Consumer Staples, Utilities and Telecoms.
- At a regional level, we have reduced our exposure to Emerging markets further and increased exposure to Japan.
- We have reduced our weighting in bonds in our balanced portfolios. Within our bond portfolios, we remain overweight core bond markets and underweight peripheral bond markets.

## Market Outlook

- Leading economic data continues to suggest that the global recovery remains on track, although tensions in the Middle-East and the impact this will have on the oil price and economic growth are a cause for concern.
- Employment is always a lagging indicator but it has lagged economic growth more so than usual in this recovery. However, while unemployment rates have yet to improve in the periphery of Europe, the industrial strength in Germany has pushed down unemployment there to 20 year lows. In addition, it would appear that unemployment has peaked in the US.
- Despite rising yields in Portugal, peripheral debt concerns in the Euro-zone have been sidelined for now which may be overly optimistic as a solution has yet to be agreed upon.
- Whilst equity valuations are no longer cheap relative to history, they continue to be attractive for the long-term investor particularly when compared to government bonds.