

These commentaries and indicators represent the views from a sample of bespoke Fund Managers for Quarter 2, 2010 (period April-June)

**For Financial Advisers only**

## United Kingdom

**UK Overall Rating: 3.4**

### Newton - 4

Equity markets have recovered strongly following the large interventionist measures implemented by government's around the world. Stabilisation of the financial system appears to have been achieved and the removal of survival uncertainty led to large gains in certain equities over the year. Ultra loose monetary policy remains in place globally and is likely to lead to asset price distortion as funds flow to areas where investor's arbitrage either yield differentials or seek growth. While gains can be made by taking advantage of these manufactured conditions, exit policies must be implemented when economies are strong enough to stand alone, or when the risk to fiscal and monetary credibility becomes a greater threat than a weak economy. As we move forward, valuations are likely to be driven by underlying corporate earnings and we continue to see the most compelling value in well capitalised, stable growth opportunities often offering attractive dividend yields. While all companies are dependent on economic conditions to a greater or lesser extent, those companies that are less dependent on current monetary support appear attractive.

### Royal London Asset Management - 3

Though recent weakness does offer some upside, we feel that the UK equity market has now discounted much of the improvement in economic prospects which we expect to occur in 2010. As such, there is no longer such a clear call to be so bullish on markets, although we do not expect a dramatic reversal in the near term. While our central scenario is for reasonably robust economic growth this year, led by China and the other emerging economies, there are major risks either side of this view, towards higher inflation and policy tightening, or renewed deflation concerns.

### SWIP - 4

While an upswing in the UK economy is now underway, the recovery may gather pace only slowly by past standards. The impact of fiscal policy is set to turn from significantly positive to moderately negative, and the small-company sector in particular may find that credit availability remains an issue for some time. Consumers are unlikely to be the driving force of the economy, given existing high levels of debt and the prospect of higher tax bills. Rather, a sustained recovery is likely to be driven by a rebound in business investment from low levels and by a firming of exports in response to stronger world activity and the relatively competitive level of sterling.

Company	Rating	Company	Rating
Axa Framlington	3	Newton	4
Barings Asset Management	4	Rathbones	3
BlackRock	3	Royal London Asset Management	3
Henderson New Star	3	Schroders	3
Invesco Perpetual	4	SWIP	4

#### Key:

- 1: Snarling Bear
- 2: Bearish
- 3: Neutral
- 4: Bullish
- 5: Raging Bull

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## United States

**US Overall Rating: 3.6**

### Jupiter - no rating provided

The US economy is clearly stabilising. Although the pace of recovery may not be fast, macro data is getting better on a cumulative basis. At the same time, US companies have rigorously reduced costs and this gives them strong operating leverage which should boost earnings as the economy improves. Following rallies in 2009, the equity market is not as cheap as it was at the beginning of last year and we expect the quality of companies to become more important in 2010. As last year's rallies were led by financials, consumer cyclicals and other high-risk stocks, many quality companies with strong balance sheets are still looking undervalued.

### Rathbones - 4

- Economic conditions have surprised on the upside, but is this sustainable?
- Rising levels of public debt. Volatile, non-farm payroll numbers
- Consumer remains key, but confidence shaky
- Tentative recovery in housing
- Banks rebuilding balance sheets
- Excessive liquidity helpful, but what happens when stimuli are withdrawn?
- Dollar debate
- Corporate earnings mixed
- US trades on P/E of 14.3x and yield of 2.1% (2010e).

### Royal London Asset Management - 3

Initial estimates suggest that the US economy expanded rapidly in the final three months of 2009 and, with the recession now effectively at an end, attention has turned to questions of sustainability and in particular, whether there will be a renewed downturn, or double-dip. Unemployment

has now begun to fall and the main business surveys point to a rapid rebound in economic activity. As in the UK, equity markets moved last year to discount a much better economic outlook, however, since we do not expect a tightening in monetary policy for some time, the policy backdrop for equities remains generally supportive. Further support comes from company earnings, which have continued to surprise on the upside.

### Schroders - 4

US companies have accumulated strong cash balances, which could be a positive catalyst for the market, particularly if these cash balances translate into share buybacks and higher acquisitions. At the same time, expectations of stronger US profitability in the coming quarters, driven by a combination of recovery and rising margins should benefit the market as well.

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## Japan/Far East

## Japan Overall Rating: 3.2

### BlackRock - 2

- The Japanese equity market has seen relatively little of the macro recovery translate into higher medium-term profit expectations over the last few months.
- Since May 2009, 2010/2011 profit estimates have increased by just 6%.
- The key driver for this sluggish performance may have been the banks' heavy equity raising programmes.

### Barings - 2

We retain a cautious stance and a '2' rating on the Japanese equity market. The government has finally embraced quantitative easing which has helped weaken the yen, but deflation looks well entrenched. Furthermore, domestic demand remains weak.

### Henderson New Star - 4

The recovery in the economic cycle should have been beneficial to the Japanese economy, which tends to be led by the export sector. This was seemingly derailed, however, by the investor uncertainty following the election last year and statements from the authorities suggesting the yen's strength wasn't unduly worrying. Recent statements seem to suggest they would now prefer a weaker yen. In combination with continued economic recovery, this could prove constructive for the country.

### Invesco Perpetual - 4

Despite a more anaemic domestic economic-growth outlook, we are bullish for Japan's stockmarkets. We have only recently entered the earnings-upgrade cycle and foresee strong profit growth later on this year, which will bring current high-looking valuation multiples down. Many Japanese companies are well placed to benefit from anticipated demand growth coming from Asia (especially China) and the US. Any US-attributed rebound in demand should be especially effective, as US operations of Japanese companies have boldly cut costs in the downturn. In our analysis, many valuations are too low given that credit costs have eased, price-to-book valuations are still cheap, earnings are being upgraded and

inventories are set for rebuilding. Our Japanese portfolios include a good number of large, globally strong, blue-chip exporters, such as transportation equipment providers, and we also see value in real estate, banks and brokers.

### SWIP - 4

The Japanese economy is slowly recovering from the recession, having expanded in the second and third quarters of 2009. Recent improvements in the labour market, which should lead to an increase in disposable income, are also likely to lead to a return to growth in private consumption. Our outlook for the Japanese market over the medium to long term remains cautiously positive. We believe that there is scope for the market rebound to continue into 2010, as economic conditions remain broadly supportive in Japan. Corporate earnings are expected to recover further and Japan's stock market has been a notable laggard of late. This provides grounds for optimism.

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## Europe

## Europe Overall Rating: 3.2

### Axa Framlington - 3

Worries about sovereign risk, possible increased regulation of the banks and policy tightening in China have continued to unsettle investors after a reasonable start to the year. The economic recovery should be sustained in the developed economies, though actions by heavily indebted nations such as Greece will ensure that growth remains below trend. We do not expect defaults to result from Greece's problems and equity investors may have overreacted to recent news. The economic and corporate news background continues to be good, so equities remain the asset class of choice.

### Invesco Perpetual - 4

We have a positive outlook for European equities. We do not believe that European valuations are stretched when taken as a whole, and most countries in Continental Europe are not facing as many of the problematic economic issues confronting the UK, although we are very aware of the challenges facing certain indebted economies. With companies, we are looking forward to earnings upgrades and consider analysts to be behind with their earnings estimates in a number of cyclical areas. We believe that even modestly improving business conditions can trigger upgrades and boost share prices. The prospect of rising interest rates at some point in 2010 and the withdrawal of quantitative easing may well bring about a change in market leadership, so we have ensured our European portfolios have good exposure to internationally diversified businesses which should continue to offer resilience in the face of the economic challenges ahead.

### Newton - 4

While we are certainly cognisant of the fact that credit contraction and the deleveraging process still have a long way to go, the scale of the international policy response and the extent to which inventories have begun to be rebuilt have helped to stabilise and kickstart the economy. The key issue for 2010, we believe, is the sustainability of the government responses to the slowdown. Thus far, governments have absorbed vast private sector risks with little consequence for their own funding costs. That may be about to change, however, as increasing numbers

of investors begin to question the ability of certain governments to continue to meet their debt repayment obligations. Against this backdrop, we believe that careful stock picking, combined with rigorous country analysis offers more scope to add value than for many years.

### Royal London Asset Management - 4

While the outlook for the European economy is clouded by fiscal concerns in the smaller economies, in particular Greece, Spain and Portugal, economic conditions in the major economies, such as France and Germany, are on a much surer footing. At any rate, large companies listed in the European equity markets tends to be global in outlook and it is the improved prospects for global rather than regional economic activity, particularly in emerging markets, combined with attractive valuation levels, which underpin our bullish stance in this area.

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# Technology

# Technology Overall Rating: 3.8

## Barings - 4

We retain an overweight stance in relation to the technology sector. The sector remains attractively valued and most constituent companies have the combination of higher quality balance sheets and solid growth prospects that we expect to find favour as 2010 progresses.

## BlackRock - 4

- Information technology was the star of the Q4 earnings season, reporting more than 50% earnings growth. Apple, Intel, Cisco Systems and Nokia were among the best performers after posting stronger-than-expected earnings.
- We remain positive on the outlook for IT as earnings momentum remains supportive and the growth outlook looks superior compared with other cyclical sectors.
- We believe that the sector should benefit from a recovery in corporate investment, as well as further stabilisation in consumer spending.

## Henderson New Star - 4

Companies have not only cut costs through 2009, they have built up cash on their balance sheets. As confidence returns to the corporate sector, we may see this cash being spent. While some of the cash will go towards rebuilding inventories from the current low levels, a large proportion may also be spent on capital expenditure of which technology is likely to be a major beneficiary.

## Schroders - 4

- Tech is expected to benefit from the inventory re-stocking theme. At the same time, the strong operational gearing in this sector should be a plus for profitability.
- With US corporates accumulating strong cash balances, this sector could be one of the first to gain from capex spending.

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