Key notes

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Ashton Bradbury, head of equities, Old Mutual Asset Managers

Eurozone crisis can be solved

- It is the single biggest issue affecting equity markets
- The solution involves
  - ◊ a write-off of Greek debt
  - ◊ recapitalisation of weaker banks
  - ◊ ongoing liquidity support for Italy and Spain
- Difficult to implement as it depends on Germany and European Central Bank and it will take time to get them to apply the necessary medicine
- Until they do, market volatility is likely to continue

China remains important to the fate of the global economy

- China’s growth will weaken (as authorities seek to reduce inflation) but does not mean there will be a hard landing
- Weaker Western economies mean China’s exports will soften
- But China has big cash reserves so it can spend on infrastructure and increase domestic spending to ensure growth continues

Optimistic on outlook for US growth

- Q2 data was weak but that was partly due to Japanese tsunami
- Since then there has been a pick up in employment and consumer durable orders
- US is not going to suddenly become a fast growth economy but it will grow
- Downside risk is major policy error in Europe which has knock on effects on other side of the Atlantic

Macro-economic concerns are beginning to affect company managements

- They are aware global events can impact on their business
- Everyone is nervous about what is around the corner
- Despite this companies remain strong financially
- However much more poor sentiment may start to affect companies’ capital investment and employment decisions
- Solving Eurozone crisis is crucial to improving sentiment of company managements

UK equities are looking cheap

- They are on 8.5x forward earnings but those forward earnings projections are probably too high (they imply 10-12% earnings growth over the next year)
- If you assume no earnings growth then market is on 9.5x forward earnings, which is still low
- That and decent dividend yield suggests that if Eurozone issue is solved then markets can return to a positive direction

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