

Executives International “Financial Outlook and Investment Opportunities in 2013”

17th January 2013



The Cast

- Institutional Investors – Pension Funds, Insurance Companies, Hedge Funds
- Individual Investors
- Issuers – Governments, Corporations
- Policy Makers – Governments, Central Banks
- Banks, IMF

Heroes & Villains

- Heroes – Private Sector, Companies and entrepreneurs
- Villains – Politicians!

Story in 2012 So Far.....

Economic

Europe

Austerity

North/South divide

Mass Unemployment

Riots

Story in 2012 So Far.....

Geopolitical

Afghanistan

BUT.....

EQUITY MARKETS

S&P500 + 13.4%

FTSE100 + 5.8%

DAX + 24%

HS + 20.7%

NIKKEI + 21.9%

BUT.....

BOND MARKETS

US 10yr 1.88% from 1.97%

UK 10yr 1.83% from 2.04%

Bund 10 yr 1.32% from 1.8%

Global Equity Markets Since 2000



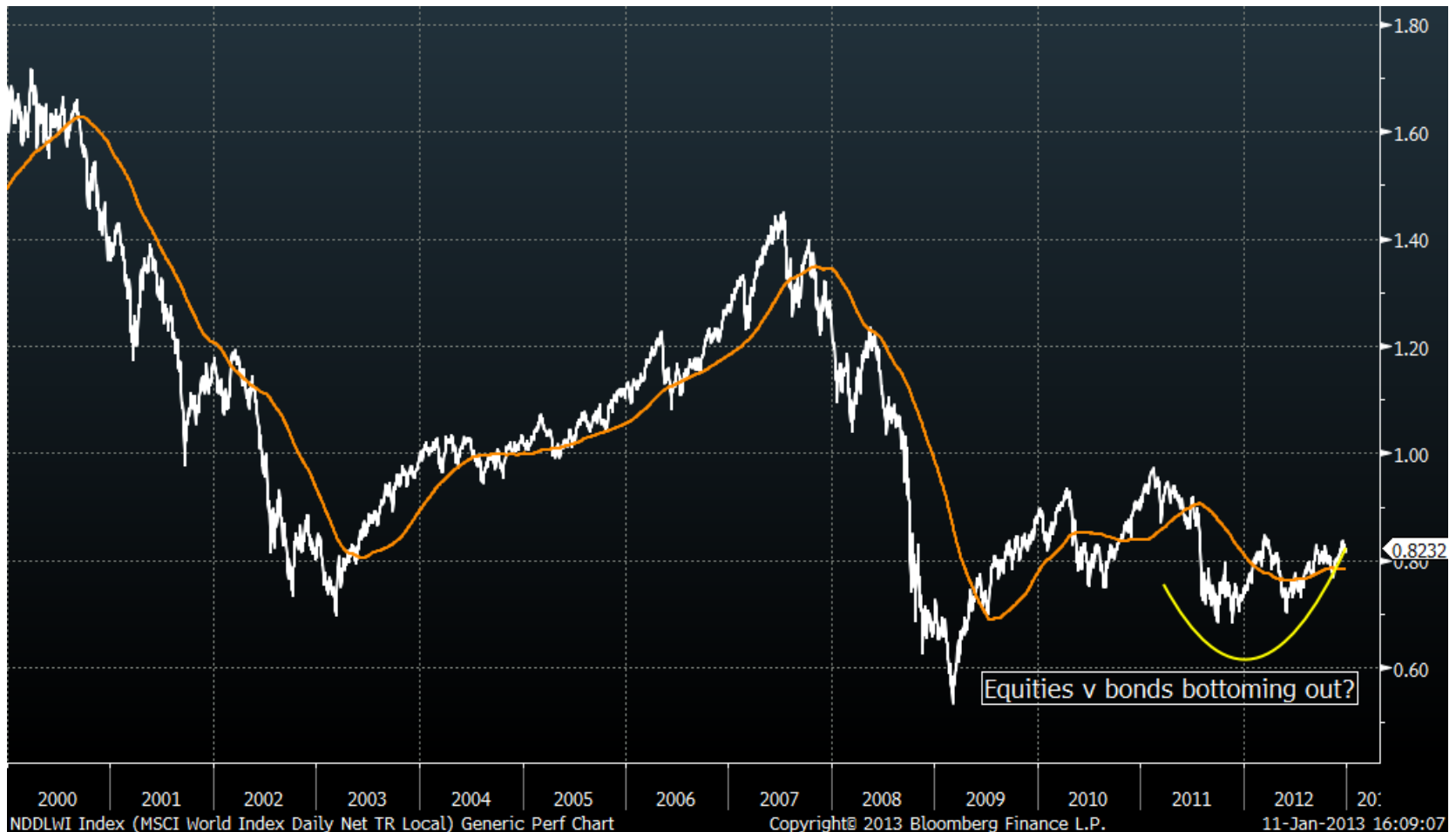
UK Gilts since 2000



World Equity Returns Relative to Gilt Returns

Bonds beat equities in times of uncertainty. A rising line in this chart shows a risk-taking environment, and vice versa

Have equities finally bottomed out against bonds, and is risk-taking about to be rewarded once more?



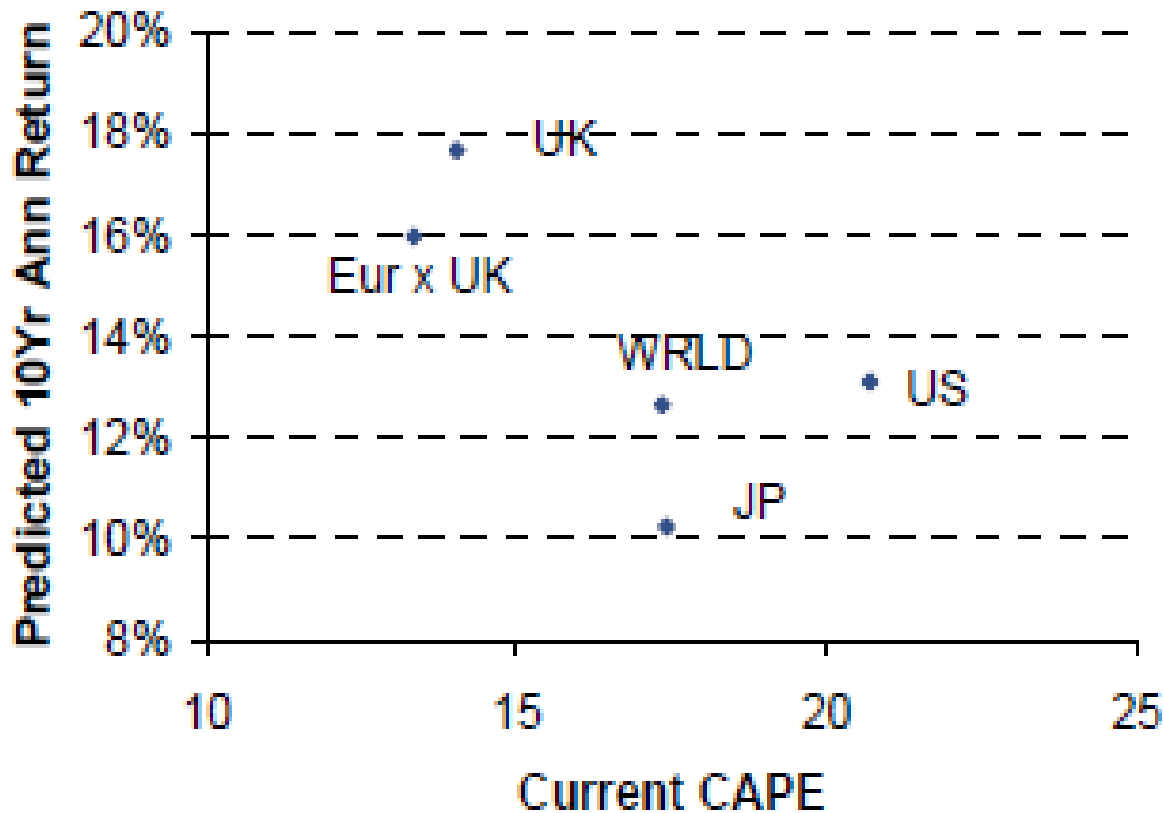
The chart shows money shifting in and out of risky assets. Despite good market performance in second half of 2012, investors pile in ('twice shy'). Only recently have we seen moves into risk, and still not in huge size



A PE can be low because prices are too low – or earnings too high

A “cyclically adjusted” PE (‘CAPE’) averages out earnings, providing a more reliable indicator of long term value

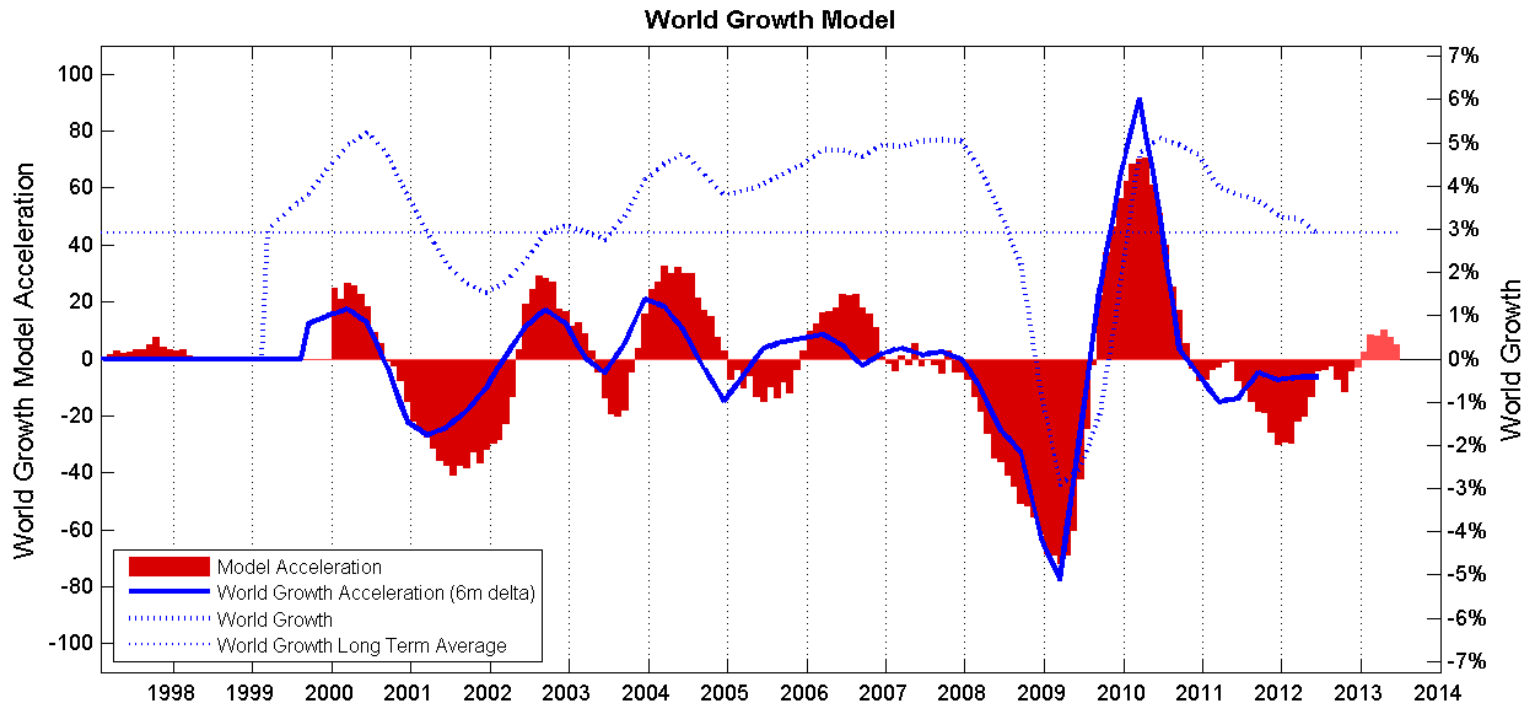
CAPEs are currently modest in most parts of the world, except in the US. Starting from here, historically equities have gone on to make good returns



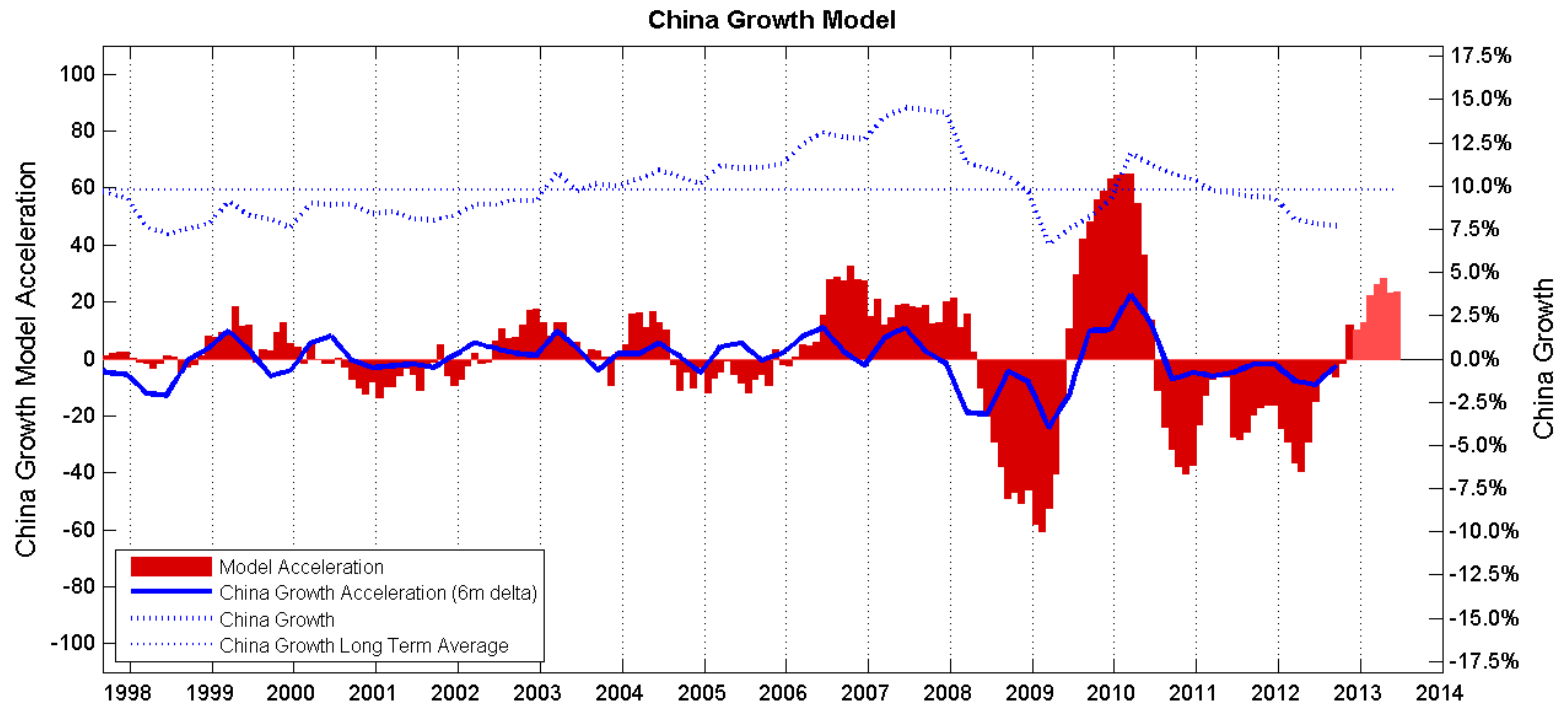
Source: CIRA, Factset

Stock markets have mirrored economic momentum

A pick-up in world growth does seem to be in the offing...



Model suggest the Chinese economy started to pick up momentum in October and there is better to come



Next
Episode

- A twelve year equity bear market means that equities are now good value and bonds bad value
- A paucity of growth – in economies and profits – have contained equities over last 2-3 years
- Faltering China and failing Europe have been central to this, leaving the US as the only engine of world growth
- There are signs this is now changing – China has picked up momentum and Europe may be bottoming out
- Some early signs that some of the pressure may be coming off earnings, particularly in the Far East
- European and Asian markets (including Japan) have given price momentum buy signals
- US equities have started underperforming after a 4 year bull trend – which may signal leadership passing to higher growth markets
- Macro and political risk still substantial, but are probably priced in and central bank policy continues to be very supportive

Executives International “Financial Outlook and Investment Opportunities in 2013”

17th January 2013

