meridian

ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

International equity markets have shown a useful rise over the quarter despite periods of volatility. They have shrugged off worrying political problems like the Ukraine and have responded to slightly better economic news from some important countries. "Animal spirits" seem to be stirring, evidenced by strong merger and acquisition activity which is always helpful for markets as it is an indicator of companies' increased optimism. Bond markets were relatively quiet and currency movements over the quarter were less marked than in some recent quarters.

The tables below detail relevant movements in markets :

International Equities 31.01.14 - 30.04.14

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+5.8	+10.8	+13.8	+10.7
Finland	+8.1	+8.2	+11.2	+8.1
France	+8.6	+8.7	+11.7	+8.6
Germany	+2.9	+3.0	+5.8	+2.9
Hong Kong, China	+6.1	+3.5	+6.3	+3.4
Italy	+12.7	+12.7	+15.8	+12.7
Japan	-4.0	-6.7	-4.2	-6.8
Netherlands	+2.8	+2.9	+5.7	+2.8
Spain	+6.9	+7.0	+9.9	+6.9
Switzerland	+6.1	+6.3	+9.2	+6.2
UK	+5.3	+5.3	+8.2	+5.2
USA	+6.1	+3.3	+6.1	+3.2
Europe ex UK	+6.6	+6.6	+9.6	+6.6
Asia Pacific ex Japan	+5.7	+6.2	+9.1	+6.1
Asia Pacific	+0.8	-0.3	+2.4	-0.4
Latin America	+7.7	+10.7	+13.8	+10.7
All World All Emerging	+4.6	+4.6	+7.5	+4.6
The World	+5.3	+3.7	+6.6	+3.7

Source FTSE World Indices

FT Government Securities Index All Stocks (total return) : +0.9%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	31.01.14	30.04.14
Sterling	2.72	2.68
US Dollar	2.66	2.67
Yen	0.63	0.62
Germany (Euro)	1.66	1.48

Sterling's performance during the quarter ending 30.04.14 (%)

Currency	Quarter Ending 30.04.14
US Dollar	+2.5
Canadian Dollar	+1.0
Yen	+2.4
Euro	-0.2
Swiss Franc	-0.3
Australian dollar	-3.3

Other currency movements during the quarter ending 30.04.14 (%)

Currency	Quarter Ending 30.04.14
US Dollar/Canadian Dollar	-1.4
US Dollar/Yen	-0.1
US Dollar/Euro	-2.6
Swiss Franc/Euro	+0.1
Euro/Yen	+2.6

Significant Commodities (US dollar terms) 31.01.14 - 30.04.14 (%)

Currency	Quarter Ending 30.04.14
Oil	+2.4
Gold	+4.3

MARKETS

International equity markets have performed well over the last quarter. The total return on the FTSE World Index in local currency terms was 5.3%, in sterling terms 3.7%, in US dollar terms 6.6%, and, in euro terms, 3.7%. Looking at local currency returns first, we note that there was little variance in the main markets from the performance of the FTSE World Index, with the exception of Japan which endured a poor quarter with the FTSE Japanese Index showing a negative return of 4.0%. In sterling terms, modest weakness in the US dollar pulled back the return on the FTSE US Index to 3.3%, whilst the FTSE Europe ex UK Index maintained its return at 6.6%. The FTSE Australian Index, helped by a partial recovery in the Australian dollar, returned 10.8%, whilst the FTSE UK Index outperformed the FTSE World Index with a return of 5.3%. Following a period of significant market and currency weakness, the FTSE Latin American Index staged a good recovery, 10.7% in sterling terms.

In the high quality international bond markets, and taking ten year government bond yields as a benchmark, there was very little change in the gross redemption yields except for Germany where the yield fell by 18 basis points to 1.48%. In the sterling market, the yield fell by 4 basis points to 2.68% and in the Japanese Government bond market by 1 basis point to 0.62%. In the US government bond market, the yield rose by 1 basis point to 2.67%.

In the currency markets, movements were relatively modest. Sterling strengthened against the US dollar by 2.5%, against the yen by 2.4% and against the Canadian dollar by 1.0%. On the other hand, it weakened by 3.3% against the Australian dollar, by 0.3% against the Swiss Franc and by 0.2% against the euro.

In the commodity markets, oil, as measured by Brent crude, rose by 2.4% and gold rose by 4.3%.

ECONOMICS

Whilst there seems to be a better feeling about the problems of the world economy reflected in reasonably stable stock market conditions, the IMF has actually reduced its forecast for economic growth in its April 2014 World Economic Outlook. Its latest projection for world economic growth in 2014 is 3.6% and for 2015 3.9%, in both cases 0.1% lower than in its January 2014 projections. The change is minor and reflects its downgrading of the prospects for Emerging Markets and Developing Economies where the 2014 and 2015 forecasts of 4.9% and 5.3% respectively are 0.2% and 0.1% lower than those made in January. The IMF's forecast for Advanced Economies remain unchanged at 2.2% and 2.3% respectively. If we look at the projections for the latter category of countries, the star is the United Kingdom where the IMF now projects growth this year of 2.9% and next year of 2.5%, which represent very significant increases of 0.4% and 0.3% on its January forecast. The uplift is so great this year that, if the IMF forecasts are proved to be correct, the UK will show the fastest growth rate of the G7 countries, 0.1% ahead of the USA which, in January, was expected to be the fastest growing economy. The IMF has kept its forecasts for the USA unchanged at 2.8% and 3.0% respectively. The forecast for the eurozone has been raised very slightly by 0.1% in both years to 1.2% and 1.5%. For France, there is hardly any change, just a 0.1% rise in this year's projection to 1.0% and no change in next year's projection of 1.5%. Germany's forecast is raised by 0.2% this year to 1.7% and by 0.1% next year to 1.6%. The largest increase in the forecast for a eurozone country is Spain where the IMF has increased this year's forecast by 0.3% to 0.9% and by 0.2% next year to 1.0%. Canada remains a very solid performer with forecast growth of 2.3% this year, up 0.1% on January's forecast, and 2.4% next year which reflects an unchanged forecast. Japan's growth forecast has suffered a significant downgrade this year, by 0.3% to 1.4%, although it remains unchanged at 1.0% for next year. Within the BRIC group of countries, the forecast for Russia, perhaps not surprisingly, has been downgraded significantly. For this year, the IMF forecasts growth of 1.3%, the same as last year, but this represents a decrease of 0.6% on its January projection and in view of the fall out from the Ukraine crisis, forecasts must be tentative. The forecast for 2015 is trimmed less dramatically by 0.2% to 2.3%. Brazil, too, has seen its forecasts reduced significantly by 0.5% this year to 1.8% and by 0.2% next year to 2.7%. For China and India, there are no changes. China is forecast to grow by 7.5% this year and 7.3% next year, whilst India is forecast to grow by 5.4% next year. As far as consumer prices are concerned, the IMF has modestly reduced its expectations. In Advanced Economies, it forecasts inflation of 1.5% this year and next, a reduction on its January forecast of 0.2% and 0.1% respectively. For Emerging Markets and Developing Economies, inflation is forecast at 5.5% this year and 5.2% next year, reductions of 0.2% and 0.1% respectively.

There have been a number of major issues which, at various times in recent years, have dominated the headlines and influenced markets but their relative importance has changed, at least temporarily. So, for example, worries about the stand off in the USA between the President and Congress over the budget and borrowing ceiling have now faded into the background, whereas they were the dominant issues at times in 2012 and 2013. Another issue, which has temporarily faded, is the eurozone. Whilst its problems are as intractable as ever, the fall in bond yields amongst the troubled eurozone countries testifies to the complacency surrounding the area's problems and, for the moment, it is not a negative issue for the market. Back to the USA again, however, rather than the budget deficit and debt issue unsettling markets, it has been the Federal Reserve's tapering policy which has caused markets to show some volatility. The move to unwind quantitative easing, wherever it has occurred, will be one of the big challenges to international equity and bond markets over the coming years. Since international equities markets reached their lowest point in March 2009, asset values have been propelled by cheap and newly created money but, if it is not eventually reversed, inflation will ensue. Right now, inflation is not a concern, but that does not alter the fact that quantitative easing has to be reversed at some stage to avoid inflation becoming a problem. The next issue, concerning China, has been exercising investors' minds for some time and that is the transition, which the government is trying to effect, from an economy heavily influenced by investment and exports to one where consumption is more prominent. Investors are concerned about the banking system, including the large shadow banking system, because of the amount of money poured into fixed asset investment which may not be viable and therefore cause or threaten losses to the banking system. China is no longer growing at the double digit rates of the past and, in its position as the world's second largest economy, will influence the economic fortunes of other countries. The target growth rate for 2014 is 7.5% and all the economic numbers from China are watched very closely. This market influence will be ever present this year. Finally, there is the emerging markets influence. As we have seen from the latest IMF forecasts, this group of countries is expected to continue to grow more quickly than developed ones but the area, or at least part of it, felt the fall out from the start of tapering in the USA. Money, which had fled to emerging markets to obtain better returns when the financial crisis started, flowed back, especially to the USA, because of the expectation that the economic effect of tapering and, later on, the reversal of quantitative easing would be to raise US interest rates and raise the value of the US dollar. A number of developing and emerging markets run large current account deficits which have to be financed. When confidence is high, investors do not always consider the underlying economic fundamentals but large current account deficits always leave countries vulnerable to currency weakness if it reflects, as it usually does, some underlying fault lines in the economy. Things are a little calmer now but could change. So, these are the economic issues which come and go as determinates of short term movements in markets. The political ones are sometimes unpredictable and difficult to factor in. For example, we do not yet know what will be the effect of the Ukraine crisis, economically let alone politically. However, we have to take a view on political crises. They occur frequently and, if one were to alter one's investment policy every time they occur, it could be costly given that markets tend to take the view that they will end without serious damage. This is not to be flippant. The Ukraine crisis is very serious and it is not long since it started but it is noticeable how little effect it has had on stock markets so far. We, therefore, tend to concentrate on economic issues realising, however, that political issues can develop into economic issues; energy for example, in this latest crisis.

If this sounds rather gloomy, it is to provide some realism to our view that, whilst equities reflect our asset choice, we think progress will be more modest than last year and that it will be uneven. There is no doubt, however, that some Keynesian "animal spirits" are beginning to stir. Despite some volatility this year, markets have roughly held on to their gains of last year which is an achievement. What is really interesting is the resurgence of merger and acquisition activity together with corporate deal making. When boards of directors are feeling more confident, deal making increases and the recent burst of activity on this front reflects increasing confidence. M & A activity helps to boost stock markets. Also helping equity markets are dividend increases and share buybacks which continue apace.

Looking at individual areas of the world, we start first with the USA where the news has been mostly encouraging, fitting in with the IMF's forecast of modest growth this year, 2.8%. A very useful insight into the US economy is the Federal Reserve's Beige Book which reports each month on economic activity in each of its twelve districts. The latest report, published in mid April, suggests that economic activity increased in most regions of the country. Ten of the districts reported a pick up in activity and only two, a decline. Earlier weather related economic weakness was reversed, resulting in an increase in consumer spending. Auto sales improved in most districts. Most districts reported an increase in manufacturing activity. Across most districts home prices rose modestly with inventory levels remaining low. Construction generally strengthened. Encouragingly, loan demand strengthened and labour market conditions were generally positive, although wage pressures were contained or normal. Prices were stable or slightly higher. The evidence provided by the Beige Book is consistent with that of a moderately improving economy. The ISM's Purchasing Managers Indices are well regarded as a good economic barometer and the readings are consistent with the kind of evidence which the Federal Reserve's Beige Book has gathered. The ISM's Purchasing Managers Index for manufacturing was at 53.7 in March whilst that for non manufacturing stood at 53.1. With 50, the dividing line between expansion and contraction, these readings are consistent with a modest expansion in the economy. The pick up in retail sales noted by the Beige Book was reflected in a strong month on month increase in retail sales, 1.1% in March, compared with 0.7% in February and, supporting this evidence of increasing confidence, the Thomson Reuters/University of Michigan Consumer Confidence Index rose to 82.6 in April compared with 80.0 in March. Industrial production showed a strong month on month rise in March, up just over 0.7%. The Conference Board's index of leading indicators was slightly higher in March at 100.9 compared with 100.1 in February. The unemployment rate remained steady at 6.7%.

What this means in terms of monetary policy is that tapering is likely to continue with the logical course, in the absence of any unexpected developments, being to continue at US$10 billion a month which means that quantitative easing would end in the autumn. However, the other side of monetary policy, the standard side, i.e. interest rates, do not seem likely to rise this year, if the view of the majority of the Federal Open Markets Committee is to be believed. With unemployment moving down towards the previously suggested level of an interest rate increase at 6.5%, this now becomes just one indicator which the FOMC will consider.

The economic news from the USA is therefore relatively encouraging. It is also good to see that high quality companies with a value bias, which had previously been out of favour, have rotated to the front of investors' minds, whilst some of the technology stocks, previously much in favour, have fallen back quite sharply. Good quality shares, with relatively predictable earnings growth and prospects for increasing dividends, seem to us to fit the type of economic environment in which we find ourselves. We continue to believe that the USA represents one of the more attractive markets and, for long term investors, the much changed and more favourable energy outlook as a result of the shale revolution represents a strong bull point for US equities. Provided US corporate earnings continue to accelerate their rise as this year progresses, the market looks well underpinned. However, last year's rise was exceptional and, as for stock markets generally, more muted progress is likely this year.

As we all know, and as the IMF's economic forecasts suggest, the eurozone is going to lag behind the USA and UK in economic growth this year and, almost certainly, next year as well. The austerity measures being implemented to try to restore order to some of the eurozone countries' finances will bear down on growth. With an inability to devalue to restore competitiveness, the much more unpleasant short term route of an internal devaluation, through measures like wage cuts, dampen demand creating a threat of a vicious downward spiral in the economies affected. One issue which is becoming of increasing concern in the eurozone is the possibility of deflation. The latest inflation rate for the eurozone as a whole is 0.5% but several of the eurozone members are experiencing deflation, including Spain, Portugal and Greece. Whilst we are all used to concerns about inflation, for most people, deflation would be a new experience. On the face of it, many people would think the prospect of falling prices is one to be welcomed but, in practice, its effects can be equally as malign as inflation but, of course, in a different way. Expectations of falling prices can delay purchases by individuals and businesses of non essential items thus accentuating an economic downturn. The real value of debt increases, reversing the usual position over many years when borrowers have benefited from a fall in the value of their liabilities in real terms because of inflation. For the banking system, the problem would be twofold. Firstly, for the reasons mentioned above, borrowers may find it harder to repay loans and defaults would increase and, secondly, and related, the value of collateral posted could be lower, thus making the loan more risky for the bank concerned. In the most troubled of the three largest eurozone economies, France and Italy, inflation is dangerously low at 0.6% at 0.4% respectively. We may be approaching the time when the ECB will have to take further action to try to stimulate the eurozone economy and ward off the threat of deflation. Possible courses of action suggested may be negative interest rates to try to persuade the banks to lend more or quantitative easing which, in the conventional sense, the ECB has not undertaken so far. Both courses of action are problematic but may have to be considered.

However, the very low or negative inflation levels now seen in the eurozone do, at least, go some way to validating the dramatic fall in eurozone government bond yields seen in some markets. We have been very surprised at the extent of the fall. It is possible to explain it with the benefit of hindsight but not to justify it. If we take ten year government bond yields as a benchmark, the top eurozone credit, Germany, shows a gross redemption yield of 1.48%. With the financial strength of Germany, its AAA rating and German inflation at 1.0%, it is possible to justify the small real return on the ten year Bund. But elsewhere, yields are hard to justify. If we take Ireland, which required a bailout, its ten year government bond yields, at the time of writing, are 2.82%, only a 14 basis point advantage over the equivalent UK bond. If we look at Greece, where private investors have already taken a haircut, and where public debt in relation to GDP is around 175%, its equivalent government bond is yielding 6.64%. With its high level of public debt and further restructurings almost certainly necessary, together with the fact that the country is experiencing deflation, with the associated dangers which we mentioned above, this hardly seems a realistic yield. Those buying bonds at this level seem to be chasing yield at any price and expecting that the ECB/EU will ensure that principal and interest are paid. This seems to be taking a lot on trust. Although Portugal and Spain are making more progress, yields of 3.64% and 3.03% on Portuguese and Spanish bonds respectively, seem to be taking an extremely optimistic view. All of these countries need to grow at a reasonable rate just to stabilise their debt to GDP ratio and, in a deflationary environment, the problem becomes even worse as even unchanged nominal outstanding debt worsens the rate if deflation causes GDP to contract in nominal terms. We discussed earlier on that one of the five issues influencing market movements in recent times has been emerging markets and recalled that when the major economies started their very easy monetary policy in response to the financial crisis in 2008, money started to flow to emerging markets in search of a higher yield. Then, when US monetary policy started to become slightly less easy in absolute terms with the threat and, then, the reality of tapering, but, in relative terms remaining extraordinarily easy, money moved out of some emerging markets. The situation in the bond markets of the troubled eurozone suggests a similar situation. Extremely easy monetary policy has distorted investment decisions meaning that the level of risk taken by some investors has risen substantially. The eurozone bond market is a case in point. Valuations look very distorted.

Perhaps the most interesting very recent developments in the eurozone are the changes in Prime Ministers in France and Italy. Both countries are afflicted with poor growth prospects and difficult public finances, in the case of France particularly with its budget deficit and, in the case of Italy, with its outstanding level of public debt as a percentage of GDP at around 133%. The recent heavy defeat of the government party in the French local elections prompted the President to replace his Prime Minister with one of his more centrist cabinet members, Manuel Valls, even though he tried to balance his appointments with some of those from the left wing of the party. The public sector weighs heavily on the French economy at approximately 57% of GDP thereby restricting its growth potential, so a radical change in policy is necessary in France to improve the country’s long term growth prospects. This will not be easy but the President now seems to accept that trying to improve the budgetary position, largely by raising taxes, is not the answer and has signalled a move towards a more market friendly position to try to improve growth prospects. Mr Valls is the most popular member of the government and one of the most market friendly so the change of Prime Minister represents a start in laying the foundations for a more sustainable growth programme. It will, however, be very difficult. In Italy, Mr Renzi, the new Prime Minister, faces a formidable task with the country needing substantial structural changes to improve its poor growth prospects, but Italy is a country where vested interests are very solidly entrenched. He plans to reduce income tax for the less well off and to help finance this reduction through a cut in public spending. To help business, he plans to repay money owed by the state to private companies and by revaluing the stocks which financial institutions held in the Bank of Italy which the government then wants to tax.

So, the eurozone, although it should move from economic contraction to very modest growth this year, continues to face very severe economic problems. The extent of the electorate’s disenchantment with the state of affairs will no doubt be reflected in the forthcoming elections for the European Parliament and there must be a limit to what the electorates in the countries most affected by the eurozone crisis will accept. That will be a challenge to eurozone policy members, particularly at a time when the eurozone's number two economy, France, looks as if it is asking for more time to meet its budget deficit targets. As always, we draw a distinction between companies based in the eurozone and their sovereigns. We can be much more optimistic about the former than the latter with the sense of complacency, which is permeating the eurozone, quite unjustified, in our view.

For Japan, the immediate centre of economic attraction is the economic effect of the rise on the 1st April in the consumption tax from 5% to 8% as the country tries to grapple with its horrendously bad public finances. Its budget deficit is expected to be somewhere around 8% of GDP this year whilst outstanding public debt as a percentage of GDP is around 230%. Japan has an advantage over many other countries in that the vast majority of this debt is held internally with only about 9% held by overseas investors. This reduces, but does not eliminate, the danger of a flight of capital. The raising of consumption tax, long planned, but only recently confirmed, is a calculated risk. When the tax was raised from 3% in the 1990s, it caused an economic downturn. This time it is being accompanied by an extremely aggressive monetary policy aimed at raising inflation to 2%, thereby banishing the negative effects which deflation can cause, as we discussed earlier. Whilst the consumption tax increase will be permanent and is planned to be increased again next year to 10%, the fiscal stimulus also being applied with the aggressive monetary policy is planned on a more short term basis and it is hoped that it will offset the effects of the tax increase. Japan has a further problem arising from the nuclear disaster in 2012, caused by the tsunami and earthquakes. With its nuclear capacity turned off, the import bill for its energy has risen sharply, thus threatening to eliminate Japan's famously strong current account surplus. Moving into deficit carries a further risk to the economy although this is more of a medium and long term issue and the government wants to restart some of the power stations. The latest Markit/JMMA composite Purchasing Managers Index for March shows a reading of 52.8, with manufacturing slightly stronger than services at 53.9 against 50.6. The latest Tankan survey for the first quarter of 2014 showed a reading of 14 against 9 for the fourth quarter of 2013. The reading for small businesses was 7 against 3, so more optimism there. On the other hand, the latest industrial production figures for February were disappointing, down 2.3% month on month against a rise of 3.9% in January. As far as inflation is concerned, the Bank of Japan's 2% target has not yet been met. The latest year on year figure to the end of March is 1.6%. With the much more competitive value of the yen, many Japanese manufacturing companies are in a much stronger position than they were, hence the sharp rise in many companies' profits. They are under great pressure from the government to raise wages to help to stimulate domestic consumption and offset the consumption tax increase but so far they have been cautious, no doubt reflecting their uncertain view as to how the economy will develop. "Abenomics" continues to represent a high risk, high reward strategy.

Turning to China, the latest year on year growth rate to March was 7.4% against 7.7% for calendar year 2013. The challenge for the Chinese leadership is to manage the transition of the economy towards consumption and away from fixed asset investment and exports without disturbing the country's growth prospects and a much lower growth rate and all of the ensuing problems that would bring. The latest industrial production figures show an 8.8% year on year increase, whilst the latest Purchasing Managers Index for the manufacturing sector is only just in positive territory at 50.3, although the non manufacturing index has a stronger reading at 54.5. Both readings are little changed from those of the previous month. Figures like those quoted above will be watched closely by investors because of the significant influence of the Chinese economy and markets react noticeably to the economic news from China.

Moving to look at the UK, it is extraordinary what a difference the passage of a year makes. One year ago, some commentators and politicians were talking about a triple dip recession. Now, as the IMF

World Economic Outlook suggests, the UK might become the fastest growing of the G7 economies this year. From nowhere, it seems, nearly all the economic indicators are flashing green. What it does show is that following a debt reduction programme, even though the Chancellor has wisely allowed the economy's automatic stabilisers to work, is not inconsistent with economic growth. Whilst it is very pleasing to show such a good performance, it is important to emphasise that the UK economy has not quite got back to where it was before the financial crisis and that a budget deficit of about 6.6% of GDP in 2013/14 and a forecast of 5.5% in 2014/15, is still dangerously large. The forecast is that it will eventually move into surplus in 2018 amounting to 0.2% of GDP. The wisdom of the UK staying clear of the euro becomes increasingly evident as time goes by. The latest GDP figure (it is the first estimate for the first quarter of 2014) shows a quarter on quarter rise of 0.8% to give a year on year increase of 3.1%. The OBR estimate of growth this year is 2.7% although other forecasts are higher, for example, the IMF's which we quoted earlier in this review. The latest Purchasing Managers Indices are all strong with the composite figure at 57.6 (March) and a manufacturing PMI at 57.3 (April), a services PMI at 57.6 (March, and by far the largest part of the economy) and the construction PMI at 60.8 (April). Industrial production in February was up 0.9% month on month and 2.7% year on year. Encouragingly, and important for future growth, the latest figures for business investment for the final quarter of 2013 showed a quarter on quarter rise of 2.4% and a year on year rise of 8.7%. With UK growth fuelled by the housing market and consumption, a better quality of growth driven by business investment and exports is highly desirable. Unemployment, whilst still too high at 6.9%, compares favourably with the 11.8% level in the eurozone and the trend has been encouragingly downwards. Much has been made of the fact that, whilst the economy has been recovering, people have been worse off because inflation has been running in excess of the level of pay increases. This, of course, is true but now with inflation down to 1.6%, earnings have crept slightly ahead, if only for one month. The trend is expected to continue and, if that is the case, it should raise economic confidence. However, whilst, from a low base, the economic news has been almost wholly encouraging, we believe that the political risks to the market have increased and that optimism must be tempered. There is a dangerous hostility to business being demonstrated in some quarters, with sectors such as the energy companies, banking sector and housebuilders coming in for particular attention. One does not have to excuse what has happened in certain sections of the financial sector to make the point that it is a very important sector for the UK economy and constant attacks on it threaten to drive business away. Similarly, constant attacks on the energy industry and threats of price freezes have destabilised what was considered one of the most stable regulated regimes. No board of directors can sensibly risk investment in such a politically charged and unpredictable regulatory environment. All countries benefit from foreign investment but those, like the UK, which are running large current account deficits, need foreign direct investment whether it be through buying businesses, investing in plant and machinery or buying property. The unpleasant anti business culture being whipped up by some in the UK is a threat to the market and must therefore temper one's optimism about the short term economic outlook's effect on the UK stock market.

So far this year, the modest movement in international equity markets, which disguises a certain amount of volatility, is in line with our expectations that they will grind higher over the course of the year with periods of interruptions in the upward growth trend in recognition of the economic and political issues which abound. The movement in corporate earnings needs to be watched in the context of validating last year's rise in equity prices. We remain negative on bonds where, despite the low inflation environment, the low level of yield remains unappealing.