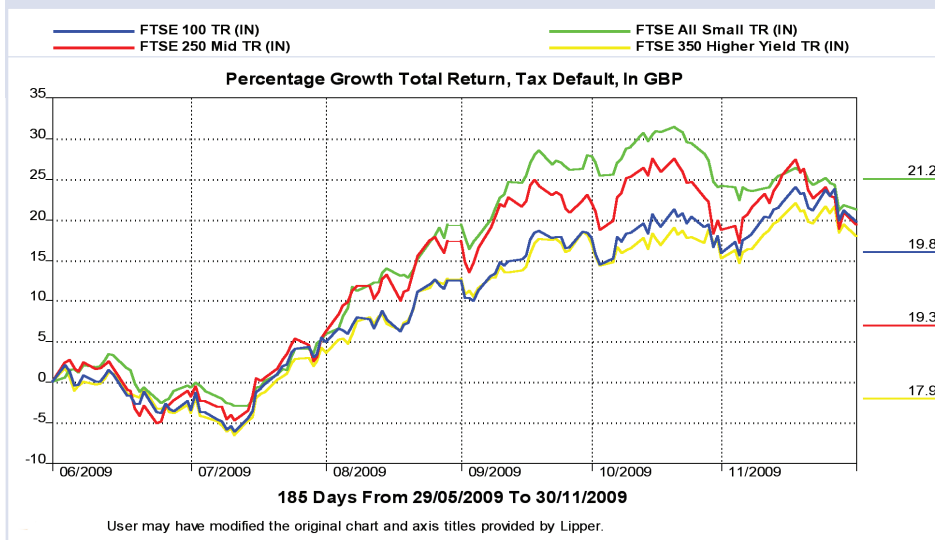


DECEMBER 2009

Happy Christmas and best wishes for the New Year

## UK EQUITIES

Mervyn King, Governor of the Bank of England, remarked to the Treasury Select Committee that monetary policy may not be tightened until late in 2011. A similar time frame may also apply to the decision to sell the assets it has purchased in its quantitative easing campaign. The Bank remains deeply concerned about downside risks, notably from low household and business spending, poor availability of credit and spare capacity putting downward pressure on consumer prices. These factors are likely to constrain growth in the year ahead but we are expecting the UK economy to emerge from recession in 2010 given divergent monetary policy, possible tax rises and reduced government spending, there are a number of question marks about the sustainability of a recovery. These questions particularly concern the western economies (and the US) given the huge government-led spending programmes; a fact not lost on policy makers at the ECB. In his statement in the latest monetary policy press release the Bank's President, Jean-Claude Trichet, commented that "some of the factors supporting the recovery at present are of a temporary nature". He continued, "the Governing Council expects the euro-area economy to grow at a moderate pace in 2010, recognising that the recovery process is likely to be uneven and that the outlook remains subject to high uncertainty." It is very likely that interest rates, currently at 1%, will remain unchanged for many months to come. With the spectre of a double dip in the euro area and with worrying prospects for the same much closer to home in Switzerland, the ECB will be keen to avoid a premature withdrawal of the support it has offered to the 16 member states in the euro area.



## US EQUITIES

Ben Bernanke, the Federal Reserve Chairman, has indicated on a number of occasions recently that economic activity in the US does appear to be improving but it may be some time before it can be assured that the recovery will be self sustaining. Action is being taken to try to stimulate lending, in particular to small businesses, with the Troubled Asset Relief Programme (TARP) being extended into next year to support this, which is vital in underpinning a recovery. There is still mixed economic data and the outlook remains subject to high uncertainty.

Continued over page

## EUROPEAN EQUITIES

The European Central Bank (ECB) is curtailing some of its unconventional monetary policy measures. Early next year the bank will unwind its emergency liquidity support programme (although it will still offer unlimited liquidity at a 1% rate). An auction of 1-year loans will be the last. This is not surprising as it seems the euro-zone is in recovery with aggregate output expanding 0.4% in the third quarter (bringing the rate of annual contraction down from 4.8% to 4.1%). Improvements in the economic outlook are owed to a rebound in exports and huge government-led spending programmes; a fact not lost on policy makers at the ECB. In his statement in the latest monetary policy press release the Bank's President, Jean-Claude Trichet, commented that "some of the factors supporting the recovery at present are of a temporary nature". He continued, "the Governing Council expects the euro-area economy to grow at a moderate pace in 2010, recognising that the recovery process is likely to be uneven and that the outlook remains subject to high uncertainty." It is very likely that interest rates, currently at 1%, will remain unchanged for many months to come. With the spectre of a double dip in the euro area and with worrying prospects for the same much closer to home in Switzerland, the ECB will be keen to avoid a premature withdrawal of the support it has offered to the 16 member states in the euro area.

## JAPANESE EQUITIES

There is growing concern that there may be a "double dip" in the economy as the recovery process is likely to be uneven and that the outlook remains subject to high uncertainty. An increase reported in business investment was also revised down to show a fall. Consequently the outlook remains subject to high uncertainty.

Continued over page

