

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

22.11.2011



www.ramseycrookall.com



Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Today's Speakers



Stuart Cowan Chartered FCSI

Investment Director

“Welcome & Introduction”



Peter Robertson BA (Hons)

Chartered FCSI

Senior Investment Manager

“Global Economic Outlook”



Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange



Ramsey Crookall & Co

- Established in 1946
- The Isle of Man's longest established independent firm of stockbrokers and investment managers.

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Ramsey Crookall & Co is a 'full service' stockbroker

Stockbroking

execution only dealing and advisory service
Gilts, bonds, stocks, equities, collective investments

Investment Management

Discretionary and Advisory fee based services

Nominee and Global Custody

Money Management

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Global Markets Outlook for 2012



Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Today's Presentation

- Where we left off last year
- What happened next
- Why debt matters
- The economic outlook
 - Interest rates
 - Inflation
 - GDP forecasts
- The market outlook
 - Bonds
 - Equities
 - Commodities
 - Currency
- Conclusion

Stockbrokers & Investment Managers

Where we left off: conclusion (9th November)

- Strong recovery in asset prices since 2009
- Helped by the actions of Central Banks and Governments
- But economic recovery in the West remains fragile
- Double dip still possible. Consumers retrenching, unemployment remains high
- Equity markets discounting good news (susceptible to disappointments)
- It 'feels' illusory! Where would we be without Quantitative easing?

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

What happened next?

- Federal Reserve's QE2 started in November 2010, ran to June 2011
- European Financial Stability Facility to assist peripheral countries (\$400bn)
- Portugal & Ireland received bail out funds from IMF/ECB. Greece got €110bn
- Equities, bonds and commodities all performed well in H1 2011.
- MPC recently announced additional £75bn 'QE2'
- US Federal Reserve's 'operations twist'. Sell short dated bonds buy long dated bonds
- US, UK, Eurozone GDP positive through 2011. Growth in China remained strong

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Four years on – where are we now?

	29.10.07	29.10.10	Change	21.11.11	12m Change
3 month GBP LIBOR	6.26%	0.695%	-5.565	1.02%	+0.325
UK Base rate	5.75%	0.5%	-5.25	0.5%	u/c
US Fed Funds Tgt	4.5%	0.25%	-4.25	0.25%	u/c
10 year Gilt Yield	4.84%	3.01%	-1.83	2.20%	-0.81
FTSE 100 Index	6,706	5,675	-15.3%	5,222	-7.9%
S&P 500 (\$)	1,540.9	1,183.26	-23%	1,192	+0.7%
Gold (\$)	791.8	1,359.4	+71%	1,677	+23.3%
Reuters CRB Commodity (\$)	349.43	300.67	-13.9%	319.4	+6.2%

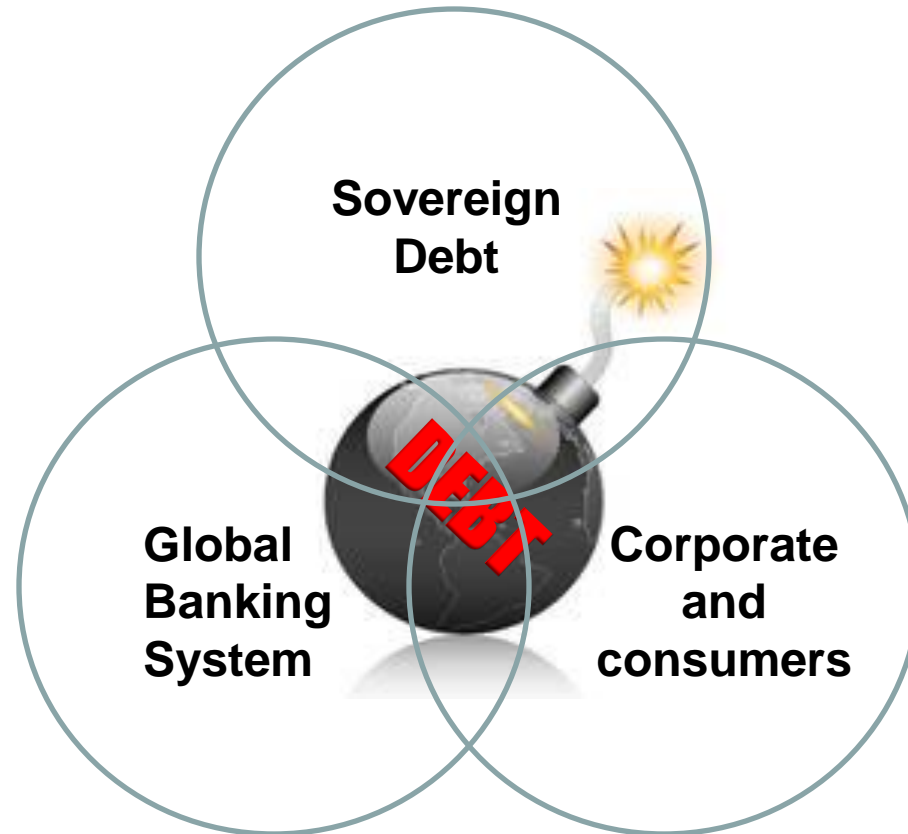
Stockbrokers & Investment Managers

Is this a 'normal' (post recession) economic recovery?

- + Corporate profits have **recovered** since 2009
- Only a modest increase in **business investment** - firms stock piling cash.
- Unemployment **above** pre 2008 crisis levels
- Consumer confidence remains **poor**
- Bond Yields and interest rates remain at **generational low levels**
- Fiscal deficits at **high levels**, in US, UK and Europe
- Economic growth '**flat-lining**' (below pre-crisis levels)
- Central banks **STILL** providing stimulus

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange



This is NOT a normal post recession cyclical recovery

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Why debt matters

- If GDP growth > debt growth, ratio falls
- Since 2002, debt growth > GDP growth
- US Government debt:
2008: \$10.0 trn (70% GDP)
2011: \$14.5 trn (100% GDP)
- **13.3%pa increase in 3 years**

FIGURE 3A: 2% FEDERAL DEBT GROWTH SCENARIO

		Debt Growing @ 2% and GDP @				
		-1%	1%	2%	3%	4%
2010	Debt (trillions)	\$12	\$12	\$12	\$12	\$12
	GDP (trillions)	\$14	\$14	\$14	\$14	\$14
	Debt ÷ GDP	0.9	0.9	0.9	0.9	0.9
2015	Debt (trillions)	\$13	\$13	\$13	\$13	\$13
	GDP (trillions)	\$13	\$15	\$15	\$16	\$17
	Debt ÷ GDP	1.0	0.9	0.9	0.8	0.8
2025	Debt (trillions)	\$16	\$16	\$16	\$16	\$16
	GDP (trillions)	\$12	\$16	\$19	\$22	\$25
	Debt ÷ GDP	1.3	1.0	0.9	0.7	0.6

FIGURE 3C: 8% FEDERAL DEBT GROWTH SCENARIO

		Debt Growing @ 8% and GDP @				
		-1%	1%	2%	3%	4%
2010	Debt (trillions)	\$12	\$12	\$12	\$12	\$12
	GDP (trillions)	\$14	\$14	\$14	\$14	\$14
	Debt ÷ GDP	0.9	0.9	0.9	0.9	0.9
2015	Debt (trillions)	\$18	\$18	\$18	\$18	\$18
	GDP (trillions)	\$13	\$15	\$15	\$16	\$17
	Debt ÷ GDP	1.3	1.2	1.1	1.1	1.0
2025	Debt (trillions)	\$38	\$38	\$38	\$38	\$38
	GDP (trillions)	\$12	\$16	\$19	\$22	\$25
	Debt ÷ GDP	3.2	2.3	2.0	1.7	1.5

Source: Strategic Economic Decisions: 'The end game draws nigh' – The Future Evolution of the Debt-to-GDP Ratio (April 2009)

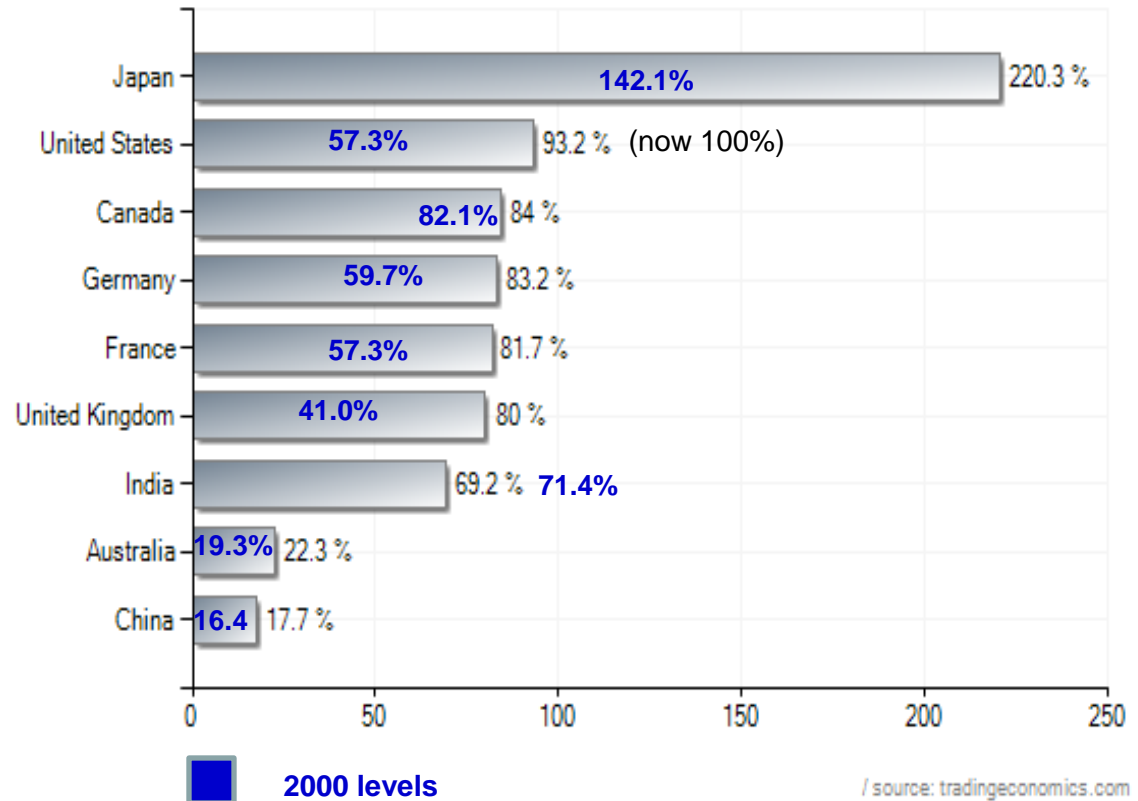
Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Public Sector Debt/GDP ratios by major economy

- Recently passed 100% in USA (Aug 2011)
- Can Governments achieve austerity and growth at the same time?



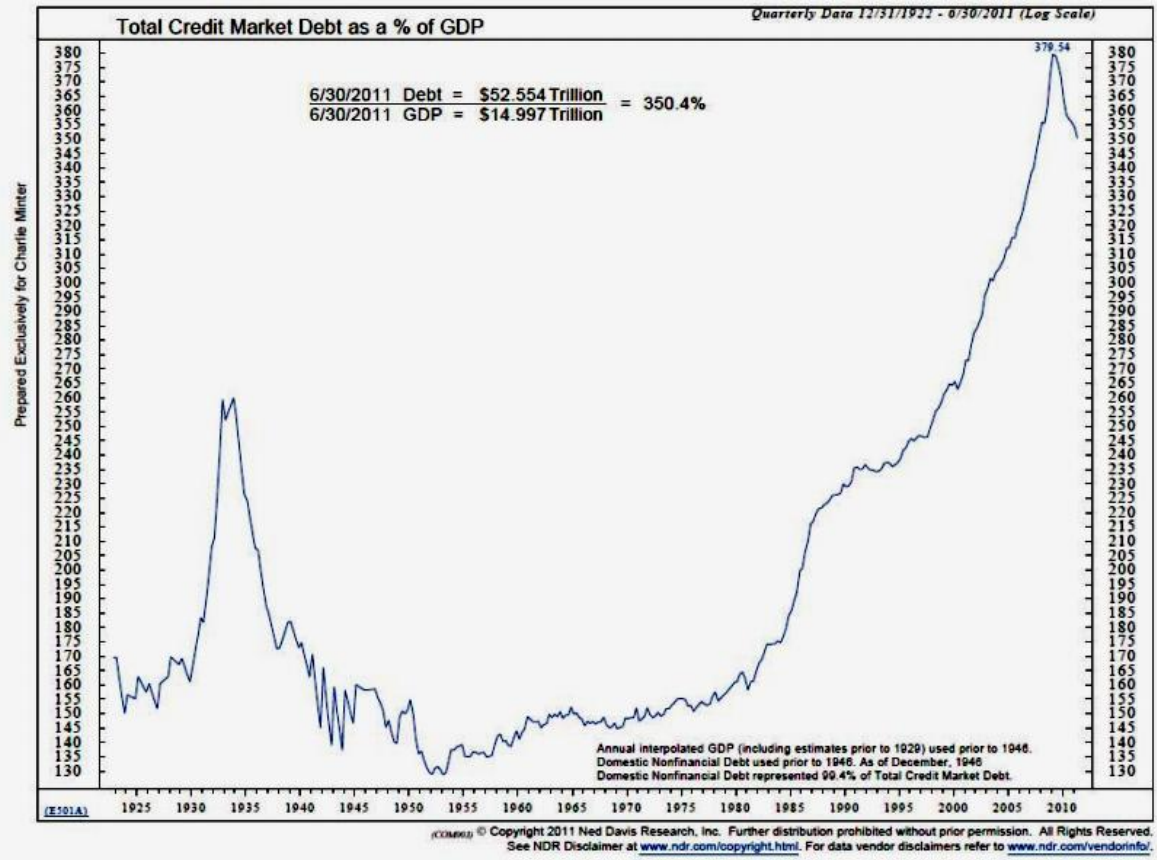
Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

US Total credit market Debt as % of GDP

- Peaked in 2009 at 380%
- Total debt doubled from 2000 to 2008 (\$26trn - \$53trn)
- Previous peak 260% in 1935 (great depression)
- So far Fed has 'monetized' about \$2.3trn of debt
- Elsewhere:
 - Eurozone: 450%
 - UK: 450%
 - Canada: 410%
 - Japan: 470%



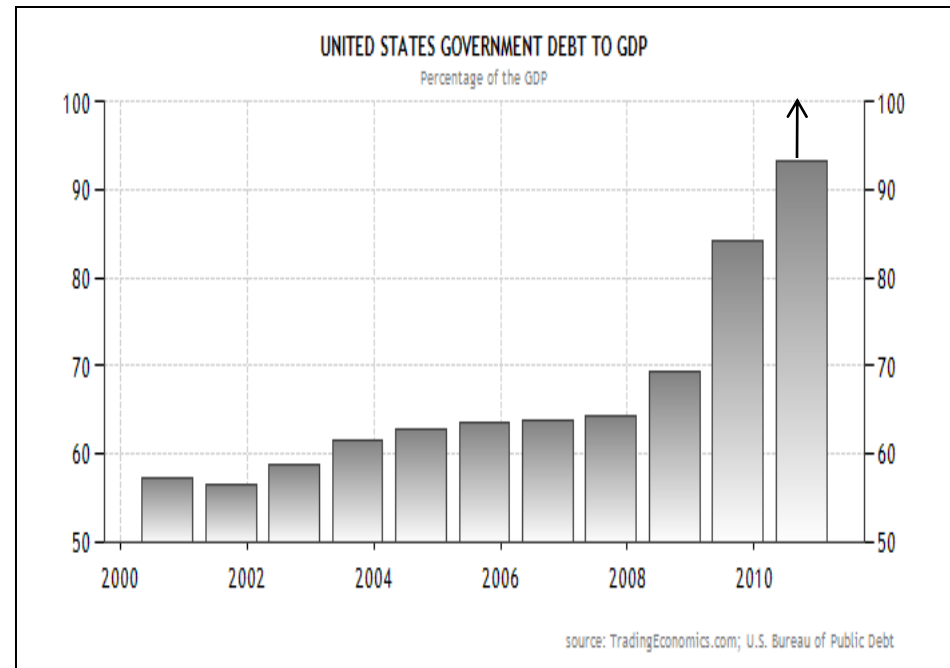
Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

US Government Debt

- Aug 2011: \$14.5 trillion
- US Debt: GDP ratio: 100% (51% in 1988)
- Debt interest: \$414bn (2010/11)
- Largest holders:
 - \$2.67tn: US Social Sec Trust Fund
 - \$1.63tn: US Fed Reserve
 - \$1.60tn: China
 - \$959bn: US Households
 - \$912bn; Japan



Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

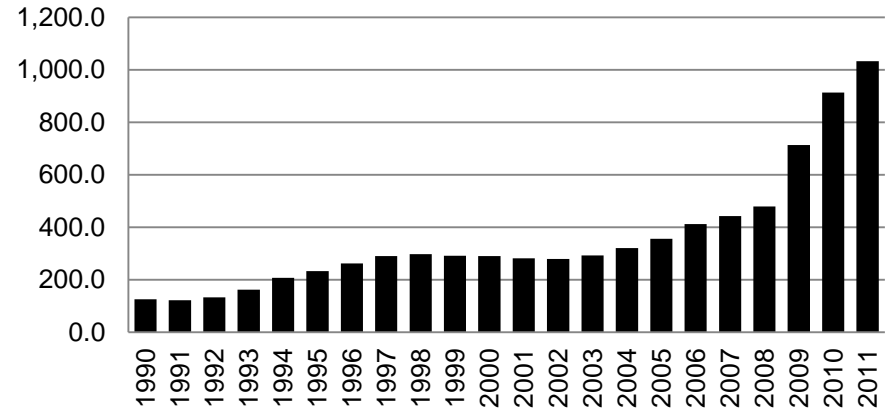
UK Government debt - 'gilts'

- Current amount outstanding: £1.03trn
- Of which £540bn issued in last 3 years
- Annual interest: **£50bn**

(2006: **£25.6bn**)

- Bank holdings of gilts up 88% in 2 years

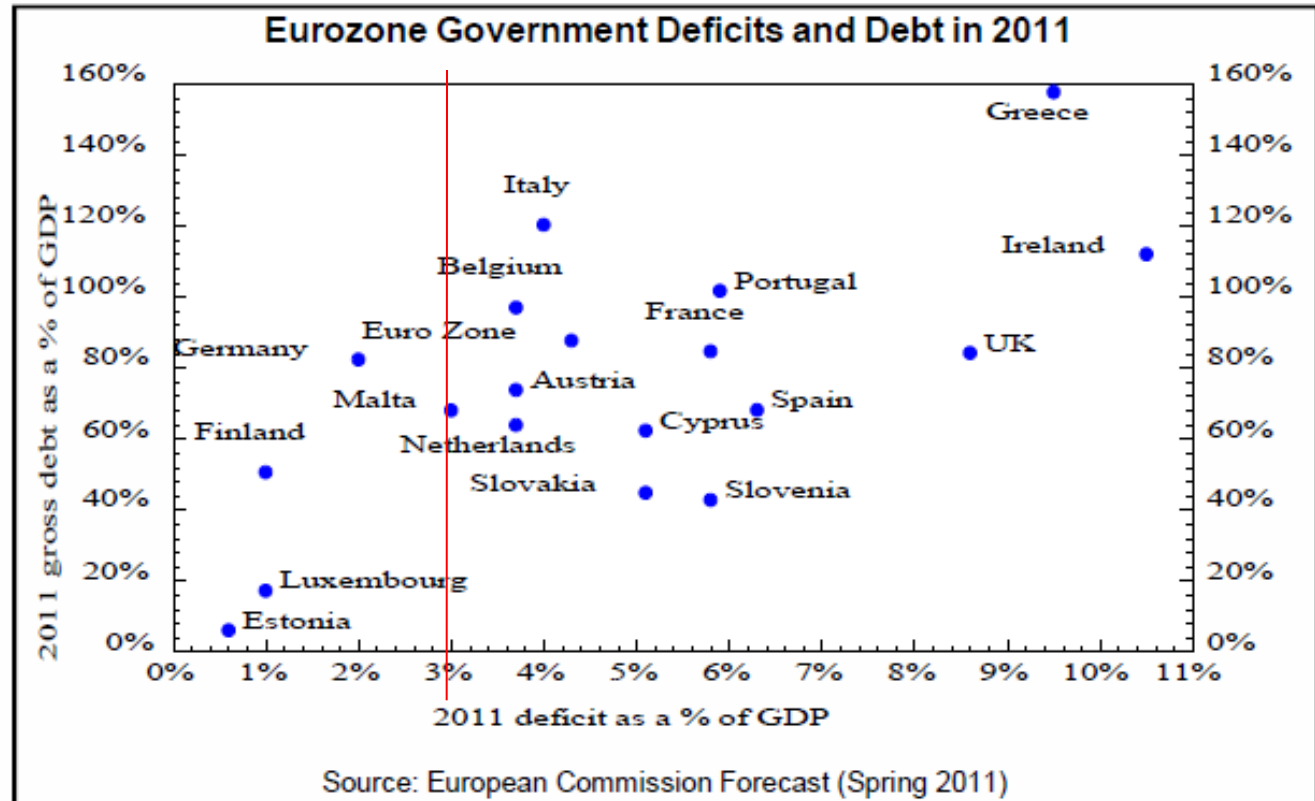
Total UK Government Debt in issue



	<u>Q1 2009</u>	<u>Q1 2011</u>	<u>% chg</u>
	<u>£bn</u>	<u>£bn</u>	
Insurance Co's and Pension Funds	229.4	287.1	25.2
Overseas	233.2	301.5	29.3
Bank of England (APF)	1	194.8	194.0
Banks and Building Societies	56.7	106.7	88.2
Other Financial Institutions	112.9	86.1	-23.7
Households	7.8	13.2	69.2
Local Authorities, Public Corps	1.4	1.4	0.0
	642.4	990.8	

Stockbrokers & Investment Managers

Eurozone: the haves and have nots



Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Eurozone GDP

- Contribution from Greece: 2.4%
- Total 'PIG' contribution: 5.9%
- 'PIG' plus Spain: 17.4%
- Spain + Italy: 28.2%
- France + Germany: 48.2%
- Italy:

.....GDP has been declining..

...while debt had been growing

€190bn of debt matures in H1 2012

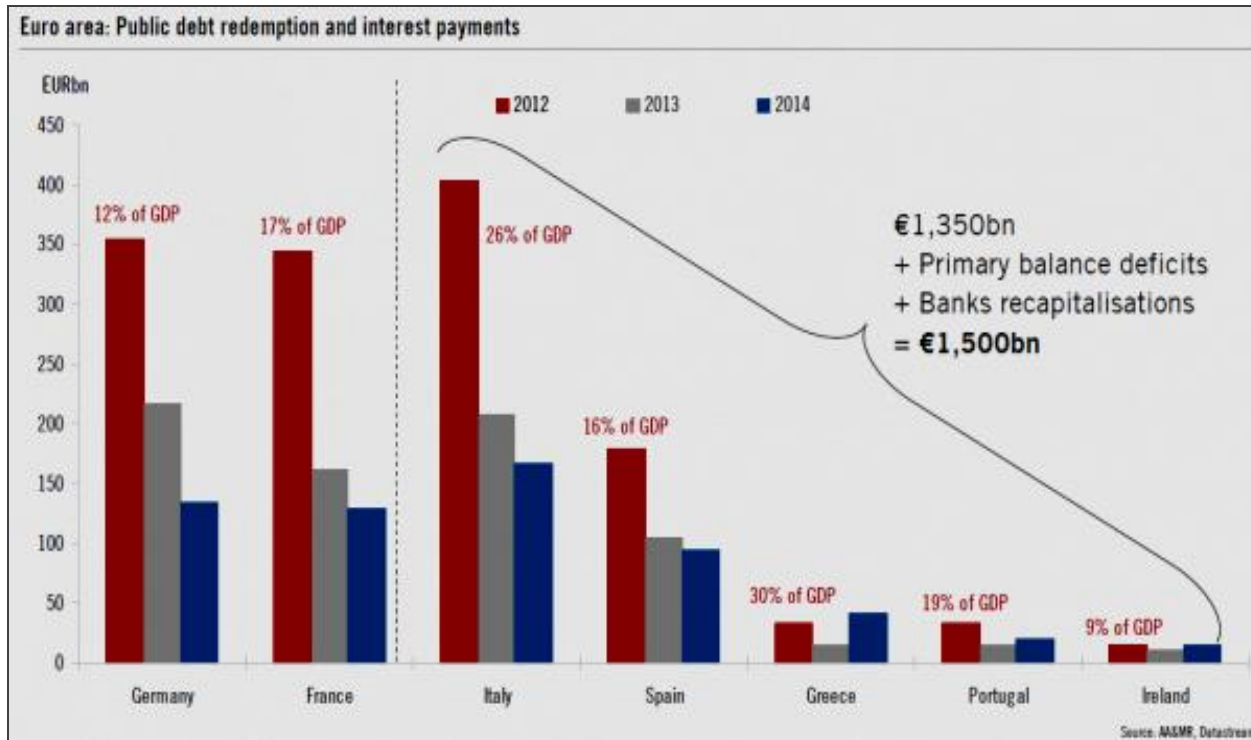
Second Quarter 2011 Euro Area GDP

	€ billion	Share of Euro Area GDP
Euro Area	2,355.6	100.0%
Germany	639.2	27.1%
France	496.6	21.1%
Italy	393.6	16.7%
Spain	272.0	11.5%
Netherlands	151.2	6.4%
Belgium	92.3	3.9%
Austria	74.9	3.2%
Greece*	55.5	2.4%
Finland	48.2	2.0%
Portugal	43.0	1.8%
Ireland	39.6	1.7%
Slovakia	17.2	0.7%
Luxembourg	10.6	0.4%
Slovenia	8.9	0.4%
Cyprus	4.5	0.2%
Estonia	4.0	0.2%
Malta	1.6	0.1%

Source: eurostat

Stockbrokers & Investment Managers

Eurozone Sovereign Debt

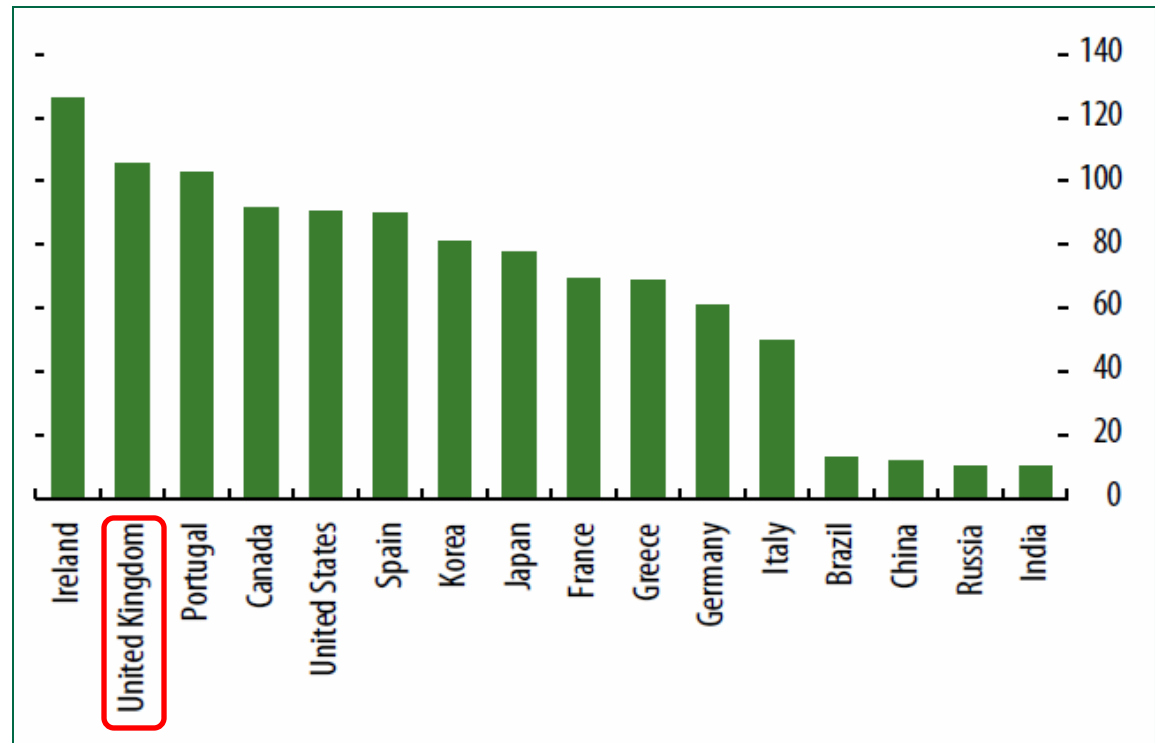


Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Household debt as % of GDP

- Influenced by:
 - Property Prices
 - Employment outlook
 - Willingness to borrow
 - Availability of credit
- UK Household debt
 - Doubled 2001-2008
 - Peaked in 2008
 - Currently £1,450bn
 - Annual Interest: £63.4bn



Source: IMF Global Financial Stability Report April 2011

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The economic outlook

- Interest Rates
- Credit/debt markets
- Inflation
- GDP/Inflation forecasts

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The economic outlook

Interest Rates

- US: 0.25%
UK: 0.50%
Eurozone: 1.25% } interest rates at historically low levels
- Further QE suggests they will remain at current levels through 2012
- Expect them to rise sharply once the recovery gains traction
- Must keep an eye on inflation
- Market rates (bond yields) will provide guidance
- Keep an eye on **LIBOR**

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The economic outlook

Credit/debt markets

- Governments are carrying massive debts
- UK and Eurozone embracing austerity. US under pressure to cut spending
- Italy – major debt roll-over in 2012
- US debt ceiling
- Banks remain reluctant to lend (Basel III, balance sheet rebuilding, asset write-downs)
- Some signs of recovery in consumer credit but consumer confidence remains low overall

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The economic outlook

Inflation

	US	UK	Eurozone
CPI (m/m)	-0.1%	0.1%	0.3%
CPI (y/y)	3.5%	5.1%	3.0%
Core CPI (y/y)	2.1%	3.1%	1.6%

- UK inflation remains ABOVE Bank of England's target
- Energy and Food prices the key drivers in 2011
- Brent crude: \$110pb, up 30% last 12 months
- Little wage inflation at this time – job preservation more important
- Clear scope for stagflation or deflation in a slowing global economy

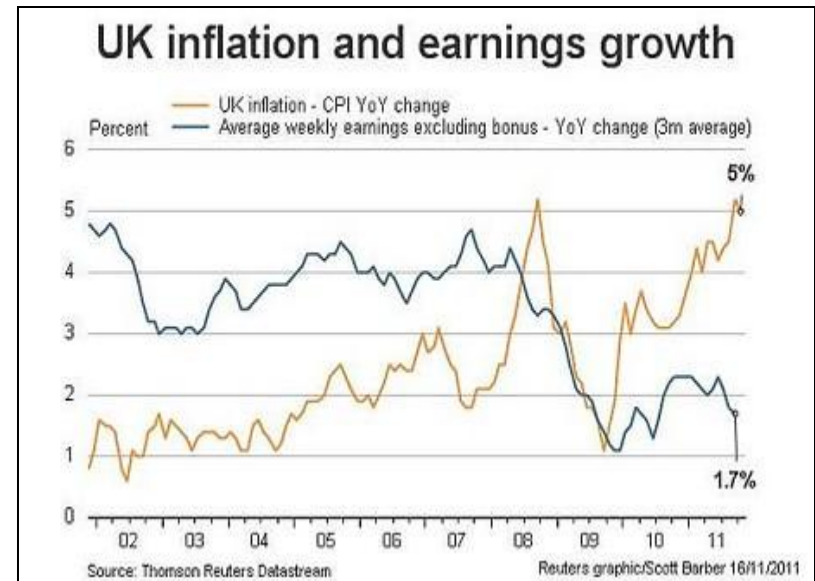
Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Stagflation now, deflation later?

- House prices — trending lower
- Unemployment — trending higher
- Consumer confidence — low
- Bond yields & interest rates — record lows
- Weak bank sector — reluctance to lend
- Bank reserves — undercapitalized
- Pace of economic growth — below trend and being revised lower



Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

GDP: Consensus Forecasts

	2010 GDP	2010 CPI		2011 GDP	2011 CPI		2012 GDP	2012 CPI
USA	3.0	1.6	↓	1.6	1.4	↑	1.9	1.4
Japan	4.0	-0.7	↓	-0.5	-0.4	↑	2.3	-0.5
Eurozone	1.8	1.6	↓	1.6	2.5	↓	1.1	1.5
UK	1.4	3.3	↓	1.1	4.5	↑	1.6	2.4
G7	2.8	1.3	↓	1.3	2.4	↑	1.6	1.1
Asia ex Japan	8.5	3.9	↓	7.6	5.6		7.6	4.3

Source: IMF Sept 2011, Focus Economics Sept 2011

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Consensus Forecasts: BRICS

	2010 GDP	2010 CPI	2011 GDP	2011 CPI	2012 GDP	2012 CPI
Brazil	7.5	5.0	3.6	6.6	3.6	5.1
Russia	4.0	6.9	4.2	8.9	4.1	7.3
India	10.1	12.0	7.8	10.6	7.5	8.6
China	10.3	3.3	9.5	5.5	9.0	3.3

Source: IMF September 2011

BRIC: recent stock market performance (local ccy)

	31.12.2010	% Chg	20.11.2011	YTD %
Bovespa	69,304	+1.0	56,284	-18.7
RSTI	1,770.2	+22.5	1,424.9	-19.5
BSE Sensex	20,509.1	+17.4	15,946.1	-22.2
Shanghai SE	2,808.1	-14.3	2,415.1	-13.9

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The market outlook

- Bonds
- Equities
- Commodities
- Currency

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The market outlook - Bonds

- Bonds remain **fundamentally expensive**
- UK Government bond yields recently touched a 19th century low!
- No sign of hyper-inflation – yet!
- But real returns are **negative**
- Strong demand for Government & Investment Grade corporate
- Everything depends on outlook for **inflation** – yields to rise as economy recovers
- Disparity among European Government bonds to continue in 2012

Maturity	Yield%
3 month	0.47
6 month	0.41
1 Year	0.46
2 Year	0.47
5 Year	1.08
10 Year	2.21
20 Year	3.01
30 Year	3.18

Stockbrokers & Investment Managers

The market outlook - Equities

- Equities remain cheap compared to bonds!
- Dividend yields are attractive (FTSE All Share 3.9%)
- **Market (event) risk** currently driving returns – hard to diversify against
- Far East Asian and Emerging Markets
- Expect global equity markets to struggle in 2012
- But volatility does create opportunities
- UK listed: **Focus on dividends, cash flow, low debt, international revenues**
- Have some international exposure too

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

FTSE 100 Index (Nov 2011)



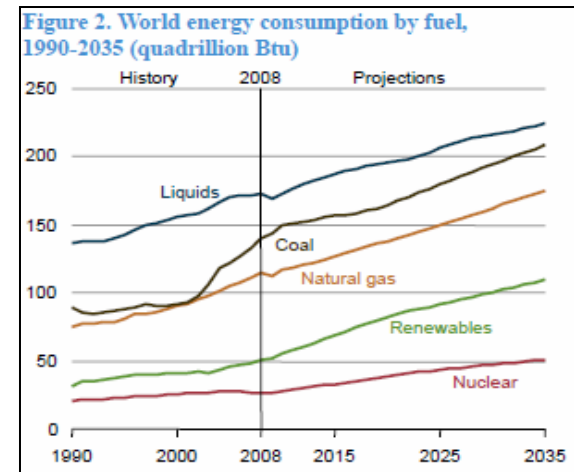
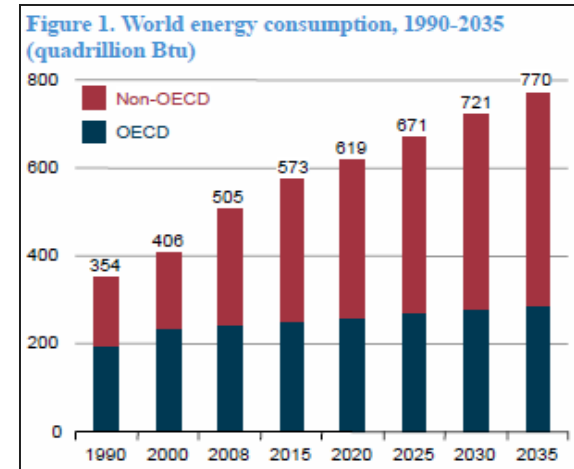
Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

The market outlook: Commodities

- Commodities have benefited from:
 - A weak USD
 - Rapid growth in the emerging markets
 - Instruments such as exchange traded funds
- Gold and precious metals are now a hedge against political & economic mis-management
- Global demographics support agriculture commodities and energy

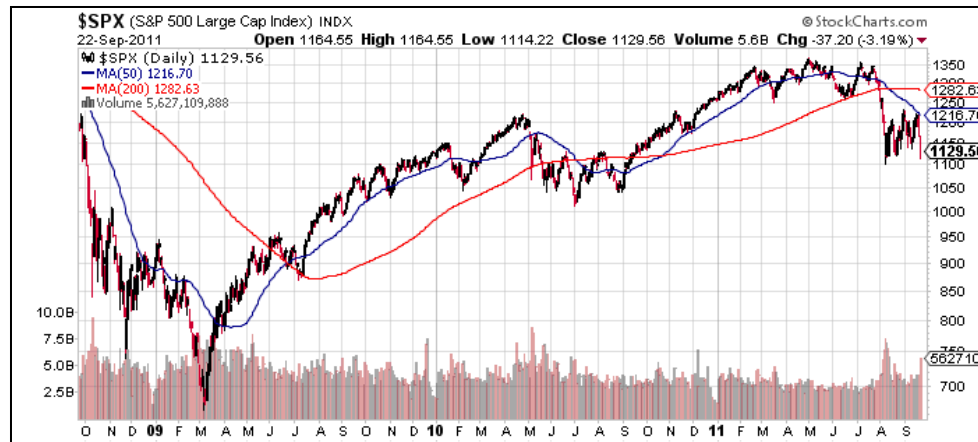
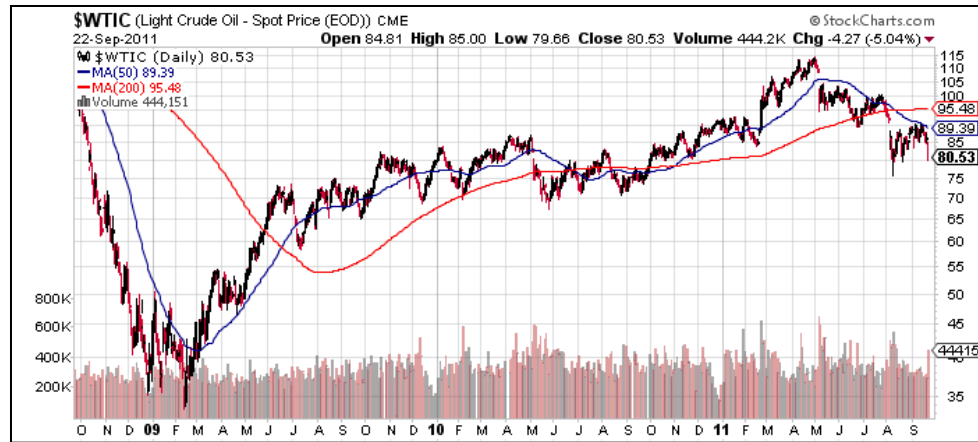


Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Crude Oil



Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

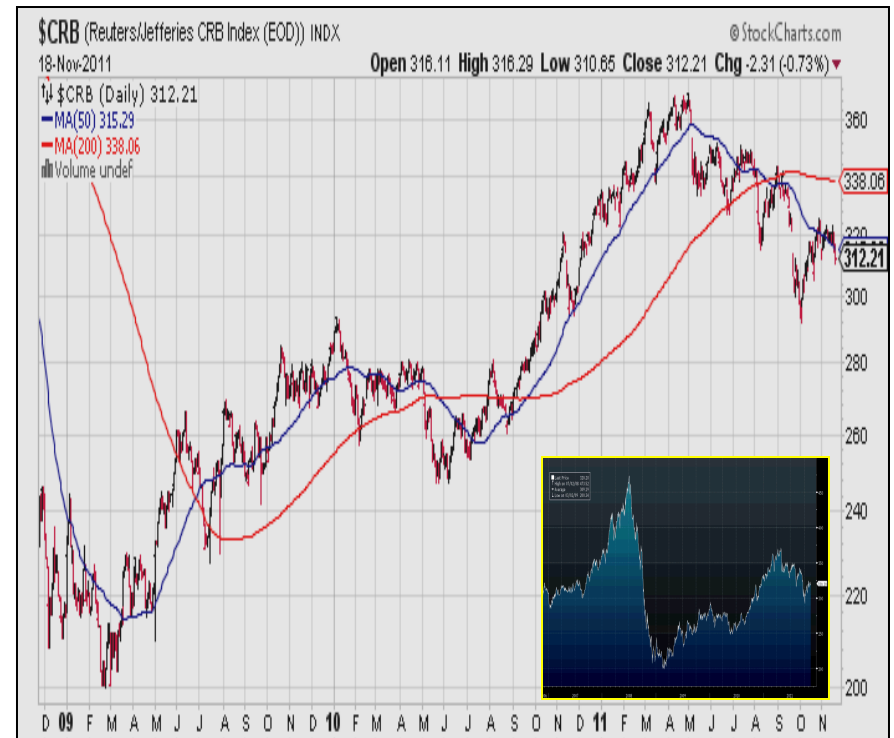
Goldman Sachs Commodities Index

Nov 2008 – Nov 2011



Reuters CRB Commodities Index

Nov 2008 – Nov 2011



Source: Bloomberg & Stockcharts

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Gold



Stockbrokers & Investment Managers

The market outlook: currency – ‘the race to devalue’

- **USD** being ‘debased’ by Federal Reserve
 - *To keep US exports attractive*
- **Eurozone** issues have not gone away.
 - *Significant QE (none so far) will weaken the Euro.*
 - *Watch banking sector*
- **Japan** currency market intervention unlikely to succeed
- **Swiss Central Bank** has ‘pegged’ SFr to Euro at €1 = SFr 1.20
- **Sterling** has benefited from Govt savings review – ‘tackling the deficit’

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Summary: in 2012:

- Expect pace of global **economic growth** to slow further – more **austerity**
- **Deflation** remains a possibility
- Expect more **QE** from UK, US & possibly Europe too
- More **pain** for savers and those approaching retirement
- European Sovereign **debt crisis** will dominate H1 2012. AAA ratings under pressure
- Keep an eye on the **US debt** ceiling
- Choice of asset driven by **attitude to risk** & potential return
- Opportunities in **equities** but susceptible to market risk & slowing economic growth
- Investment portfolios need to remain **well balanced** by asset class & geography

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Disclaimer

Where Ramsey Crookall has expressed views and opinions, these may change. Where markets and securities are mentioned in this document they do not necessarily represent a specific portfolio holding and do not constitute a recommendation to purchase or sell. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Ramsey Crookall and Co Limited is licensed by the Isle of Man Financial Supervision Commission.

Stockbrokers & Investment Managers

Ramsey Crookall & Co. Ltd.

Members of The London Stock Exchange

Questions

Stuart Cowan Chartered FCSI
Director

Peter Robertson BA (Hons) Chartered FCSI
Senior Investment Manager

Stockbrokers & Investment Managers