Investment update
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The Era of the Mini-Cycle

As markets jump between risk on and risk off, we can expect a period of dominated by mini-cycles

Ashton Bradbury, Head of Equities

Ashton Bradbury joined OMAM in September 2000, focusing on UK mid cap and smaller companies funds prior to being appointed to his current position in April 2008. Before this he was at Hill Samuel Asset Management, initially as Head of UK Smaller Companies and subsequently as Head of UK Retail. Ashton has a BSc in Banking & Finance from Loughborough University.

Last year was dominated by what went on in the eurozone. Is that going to be the case for the next 12 months?

Yes, I think it probably will. I suspect we're going to go through a fairly tortuous process of a couple of steps forward and then between one and three steps backwards. Over the course of the year we will probably inch towards some sort of a solution, but with a lot of volatility along the way.

The US continues to improve. Can it sustain its recovery?

The key to that is whether the employment market continues to recover as that is ultimately what will drive a sustainable recovery. The latest data is encouraging. It looks like we are beginning to see some traction which will lead to growth in national income, which is good. I don't think it's going to be particularly exciting, but when you think about the way people were so cautious about the US economy just six months ago, the outturn looks like it's going to be quite a bit better than worst fears.

Can equities benefit from the economic improvement, or are they going to fall back every time there's a macro event?

I think - coming back to the eurozone - we are looking ahead to a period of mini-cycles. When the macro events are on a backburner, equity investors will respond to the fundamental data, which generally speaking is improving. When macro concerns return to the surface, we'll go back to a risk off phase.

Are we any nearer to a recovery in the banking sector?

The banking sector's difficult to call. For me, I think that in Europe it's unlikely that you're going to see a sustained recovery in the banking sector until we're through the capital raising process, which we know needs to happen through the course of this year. I suspect we'll see tactical rallies in the banking sector as people periodically look to put risk into their portfolios, and that will unwind again as investors come back to worry about the longer term outlook.

China's economic growth remains strong. Which sectors in the UK benefit from that?

If people start to take a more optimistic view about China then I think you would have to go to the mining sector for the main UK beneficiary. It is a play on global GDP and quite well correlated with what happens in China.

Old Mutual Asset Managers (UK) Limited
2 Lambeth Hill
London, EC4P 4WR, UK

www.omam.co.uk
+44 (0)20 7332 7500

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So you're view is that the risk on/risk off rotation we saw in 2011 will continue in 2012?

I'm afraid I think it is. However, I also believe that by the time we get to the end of the year markets will be a little bit higher. This is partly because everybody's gone into this year just being so pessimistic and cautious in their positioning. As a result, there's a lot of bad news priced into markets which are now cheaply valued, when you look at it in any historical context. But I quite like the theme of mini-cycles being played out through risk on risk off volatility.

What are the strategies to cope with this environment?

I think that depends upon the asset class you're in and the sectors of the market that you're playing. At the moment, for choice, we favour having a little bit of risk on the table, reflecting the fact that we think that most people are very defensively positioned and therefore it won't take much in the way of good news to take markets higher. Already, some of the defensive names that held up well towards the back end of last year are looking expensive relative to cyclical stocks. Were there to be a sustained rotation from defensives to cyclical, we might start to move back the other way, playing to the theme of a period of volatility and mini-cycles.

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