Investment update

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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.

Eurozone is key to recovery

US data has seen modest improvement. Chinese growth remains at a good level. The eurozone is the remaining hurdle to recovery

Equity markets are being dominated by the eurozone sovereign debt crisis, is there a solution to this crisis?

Eurozone sovereign debt is the single major issue affecting sentiment in equity markets at the moment. I think there is a solution, and that will revolve around some form of write-off of Greek debt, recapitalisation of the weaker banks and ongoing liquidity support for countries like Italy and Spain to allow them time to reduce their ongoing deficits. Of course, that is difficult to achieve politically in the creditor states, in Germany, France, Finland and so on. There is also the question on the extent to which the European Central Bank can be involved. I suspect we will need ECB support to achieve a full resolution and that may take time to achieve.

How much is global growth dependent on China?

China is a major economy growing at high single digits. It is clearly very important to global growth - one can't move away from that. I do think though that some of the fears of a Chinese hard-landing are perhaps overplayed. There is no question that Chinese growth is going to soften and that is what the Chinese authorities have been trying to achieve through the policies they've been putting in place over the last year or so. So that should not come as a surprise. But it is a long way to move from a softening of Chinese growth to help curb inflation to assuming there is going to be hard landing. It is far too early to say that.

But if developed markets are becoming economically weaker, Chinese exports must also decline and that must have an impact?

It will and we will see that in the softening of growth which should come through over the next few months. But the Chinese are in a very strong financial position and can afford to take a range of measures to protect growth, should that become necessary.

Are you optimistic on the outlook for the US economy?

I am, actually, within reason. People became nervous about the US data through the second quarter. We said all along we felt the weakness was at least in part caused by the Japanese tsunami and interestingly the data over the last few weeks has been modestly better. There has been a pick-up in employment, consumer durables and business confidence. Now we shouldn't get carried away - this is not a fast-growth environment, but I would have thought that the US economy can muddle through with unexciting but continued growth. The downside risk will be if we get a major policy error in Europe which causes a much weaker European scenario which would then knock back into the US. But that apart, the US to me looks in reasonable shape.

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These macroeconomic concerns are obviously depressing investors, but are they depressing the company managements that you meet?

They're beginning to. I think though the typical comments that we would get from companies at the moment, taking a broad brush approach, would be, "Look, our business is still trading fine but we're not immune to what's happening in the wider world. We read the papers like everybody else and so we're nervous about what might be around the corner." I suspect we're just at the margin where the macroeconomic news-flow is starting to impact upon capital investment and employment decisions. That is why it is becoming so crucial that the eurozone issue, in particular, is resolved in the near term, before this growing feeling of caution really becomes self-fulfilling and starts to impact the real world. I would suggest we're at the cusp of that.

There is a big question around UK equities. Are they cheap or cheap for a reason?

They are cheap, at 8½ times forward-looking earnings. Now, I suspect those forward-looking earnings are probably too high, based on assumptions of around 10% to 12% earnings growth over the next year or so. But even if we knocked that earnings growth back, even if we assumed no earnings growth over the next twelve months, the market would still be trading on around 9½ times forward earnings. The conclusion is that you can have a less demanding earnings number and, coupled with a decent dividend yield, there is scope for markets to recover quite sharply as confidence comes back in. The decisive factor at this moment is resolution to the eurozone issue, and that is quite a big if in the short term.

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