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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.

UK equities

By Ashton Bradbury, Head of Equities at Old Mutual Asset Managers (UK)

It is easy to be cautious on the outlook for UK equities next year. After all, the market has rallied by around 50% from its March lows, economic data is mixed and investor confidence is still fragile. However, I remain positive and expect further progress in 2010.

Most forward-looking indicators are clearly pointing to economic recovery over the next 12 months and indeed growth expectations have gradually risen since the early part of this year. A combination of restocking and some recovery in capital expenditure (from depressed levels) should provide the economy with forward momentum, even allowing for the likely headwinds of restrictions to government spending and a subdued consumer.

I do not dispute that this time around the economic rebound will be less powerful than is typically experienced in the early stages of a recovery. However, that should not be of major concern to investors as it will allow monetary policy to remain accommodative for a prolonged period; modest growth and easy monetary policy is not a bad combination for equities.

A prospective price to earnings ratio of around 12 still looks reasonable value for the UK market (highlighting just how cheap the market had become in the spring) at this point in the economic cycle. Corporate profits next year may well surprise to the upside as even a modicum of top line growth should give rise to a geared recovery, given the aggressive cost cutting of the last year or so. Consensus expectations of 20%-plus profits growth in 2010 do not look unrealistic, given the near certainty of a significant recovery in mining and banking sector profits from depressed levels.

Clearly there are risks to the positive scenario I have outlined, but in my experience the point at which there are no obvious risks is the time to be very careful! The economic recovery could falter and disappoint, but then my positive scenario only requires modest growth. The authorities could make a significant policy error by withdrawing stimulus measures too soon, although having thrown everything but the kitchen sink at the economy to kick start a recovery it would be extraordinary if policy was tightened in anything other than a very gradual manner. Then of course there is always the unexpected shock (such as Dubai World's recent request for a debt standstill agreement) which, given the fragility of investor confidence, may trigger a disproportionate reaction. Clearly any such events will need to be treated on their merits, but more often than not are better viewed as opportunities to buy rather than reasons to sell.

The themes driving the market are likely to change in 2010. Simply put, the last couple of years have been about getting two big decisions right; being defensively positioned in 2008 and then switching to a more cyclical bias in the second quarter of 2009. As the recovery matures, excess returns are more likely to be driven by good stock selection than broad brush macro calls. The general recovery in all things cyclical is probably in its final stages,

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but there will still be selective opportunities to profit from the more cyclical parts of the market next year. In that respect good stock selection will be essential to identify companies likely to enjoy the most significant recovery in profitability as sales volumes recover. At the other end of the spectrum, against a background of modest economic growth companies with the potential to produce sustainably strong sales and profits growth beyond the recovery phase (i.e. genuine growth stocks) will be keenly sought after but hard to find. Such companies are likely to be progressively rerated, thus providing strong returns. Again, shrewd stock selection will be needed to profit from this theme.

On balance, I expect a modest economic recovery leading to a gradually rising equity market, albeit with twists and turns along the way. This background, combined with judicious stock selection, should provide the opportunity for good returns for UK equity investors in 2010.

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