

Investment update

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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.

Why we remain optimistic

A number of seemingly negative macro issues are weighing on equities - but corporate signals remain positive

The UK equity market has not found much direction this year. Despite a degree of volatility, as at the end of July both the FTSE All-Share and the FTSE Mid 250 were more or less at the same level as they were at the end of 2010. It is as though investors are struggling to decide which way to turn. Is this the end of the cycle or a bump in the road?

We remain on the positive side of the argument, for reasons which have not changed much since the market started into its current rally in the summer of 2009.

In what can seem a replay of 2010, a number of seemingly negative macro issues are overshadowing the more positive signals that continue to come from a corporate level. The most important of the former are softer economic data in the US, the aftermath of the Japanese tsunami, public sector deficits and the impact of inflation - and tighter monetary policy - in China.

At least some of the softer data is due, in our view, to the fluctuations normal to any recovery period. The Japanese tsunami is an additional factor. It is incredibly difficult to extrapolate that into broader economic data, but we should certainly expect to see Japanese industrial production picking up in the second half of the year, and that in turn should lead to a gentle re-acceleration of global economic growth.

Turning to Europe, that Greece is moving toward some kind of default is a surprise to nobody and is no longer much of an issue for the market. What the market is looking for is some general resolution to the eurozone financial crisis, as a whole, rather than the piecemeal approach that we've seen over the last 18 months or so. Clearly if we get such a resolution over the next couple of months that will be extremely positive. The risk is that the situation continues to drag on, and so what is essentially a financial issue at the moment gets drawn into the real world as companies become less confident about their own outlook given what's happening in financial markets.

Looking at China, we think that the inflation levels are going to get better towards the end of this year and the early part of next year. Chinese growth is still strong by any normal standards. So we feel that the market will become much more sanguine about Chinese inflation data over the next six months or so.

Generally, we think the second quarter results season in the UK will be good. We still feel there's a lot of confidence, particularly among global businesses, so we're looking for good first half growth and reasonable outlook statements going into the second half. The one caveat to that is if the eurozone crisis continues to flare up, that might temper some of the outlook comments you see from companies.

We feel that the UK market is cheaply priced and that earnings expectations look reasonable, with good rates of company profit growth coming through. At the same time, companies are financially strong and we're starting to see M&A activity begin to pick up. If you put these factors together, that provides quite a strong case. We've also said consistently that you're going to get periods of volatility because the macro concerns have not completely gone away.

In our portfolios, we're emphasising quality in all sectors, but on balance we still have a preference for economically sensitive businesses, reflecting our view that the economic data will improve through the second half of the year. On that basis, economically sensitive companies are reasonably rated and they still have a lot of earnings momentum, so we're staying where we are for the time being.

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