

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.

## UK equity outlook: a grudging recovery

Recovery in Western markets will be sluggish, but higher in emerging markets, taking global growth to a respectable level. The eurozone remains a key risk

Anyone trying to be remotely positive on the UK equity market has had their patience sorely tested in recent weeks. A combination of softening economic data, the ongoing eurozone government debt crisis and a downgrading of the US credit rating have combined to produce a bout of extreme risk aversion and hence falling share prices.

My central case remains that the Western world will experience a continuation of a grudging economic recovery (which for many consumers will not feel like much of a recovery at all) with growth rates of between 1% and 2% quite likely. This will be augmented by much faster growth rates of mid-single digits for a range of emerging market economies, giving respectable global growth of between 3% and 4% albeit highly polarised. This general background will be accompanied by low interest rates in the West for the foreseeable future, consumer deleveraging and a gradual tightening of fiscal policy as governments pay at least lip service (and in some cases more than this) to reducing public deficits.

Given a current market rating of approximately nine times forward earnings and a dividend yield of 4%, this would be a reasonable background for UK equities even allowing for some likely slippage in profit forecasts. However, clearly the issue that has the ability to derail this scenario is a continuation of the eurozone government debt crisis beyond the short term. As of yet we have seen little evidence of companies changing their behaviour but if the crisis continues unresolved it is inevitable that this will happen either through the transmission mechanism of tighter lending conditions or simply a more cautious approach from company chief executives as confidence dissipates. On balance it is likely that a long term solution will eventually be found (overall eurozone debt to GDP is manageable and it is in no-one's interests for the issue to worsen further) but markets will remain volatile until progress is made.

Returning to the central scenario of sluggish western growth, low interest rates, tightening fiscal policy and attractive growth from emerging markets, I favour a range of investment themes and attributes:

- **Structural growth** – companies that for stock specific reasons have attractive growth prospects even against a sluggish economic background
- **Exposure to emerging markets** – the fastest growing region of the world
- **Secure and growing dividend yields**
- **Strong balance sheets**

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