

Investment
update

05 August 2011



**Stephen Message,
manager of the Old
Mutual Equity Income
Fund**

Stephen Message took over management of this fund in November 2009. Stephen joined OMAM in October 2008 from US private wealth manager Bessemer Trust, where he worked for two years, firstly as an analyst covering Asia ex Japan and UK equities and then as manager of the UK component of Bessemer's international equity fund. Prior to this he was a business analyst at technology consultancy Detica. Stephen has a masters degree in engineering from Imperial College London and is a CFA Charterholder.

Soft patch or a return to recession

Stephen Message, manager of the Old Mutual Equity Income Fund

Within the past week, equity markets have sold off aggressively on the view that the global economic recovery is losing steam and that we may be heading back towards recession. This has been precipitated by the acceleration of the financial crisis in the eurozone and the potential for contagion into other countries. Disagreements amongst the political parties in the US over the ability to raise their debt ceiling have also hurt investor confidence.

The natural disaster in Japan has led to disruptions in the global supply chain. An oil price spike, following political tensions in the Middle East, has dented consumer confidence and further contributed to recent disappointing economic data releases.

The only positive at present is that businesses are generally delivering solid results, with cautiously optimistic outlook statements. There is clearly a conflict between what companies are telling us and what equity markets are indicating.

With regards to supply chain issues arising from the Japanese tsunami, we believe these will prove to be transitory. The oil price has also fallen from its highs in April and this should lessen the impact of inflation on both businesses and consumers. We believe the key risk to the recovery is the eurozone as markets are now concerned over the financial stability of the much larger economies of Spain and Italy. Investors are looking for a general resolution to the financial crisis in Europe as opposed to the shorter-term fixes that have been applied so far.

Our recent meetings with businesses indicate that trading continues to be resilient and the general view of many executives is that we have not witnessed a material change in purchasing behaviour. Recent movements in equity markets suggest that investors are increasingly concerned that another 'Lehman' event is imminent, which would lead to a step-change down in sentiment and a significant reduction in demand. Whilst we cannot rule out this scenario our view is that we are currently witnessing a soft-patch in the economy and that policy makers will be forced into a longer term solution to the financial crisis in Europe; in this scenario our outlook for equity markets continues to be positive.

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