

# Press Release

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November 2009

## **EQUITIES HAVE POTENTIAL TO BE AN ASSET CLASS OF CHOICE IN 2010 SAYS OMAM'S MURPHY**

A combination of attractive relative valuations and the prospects of at least some growth mean that equities could start to be viewed more favourably again, according to Simon Murphy, manager of the Old Mutual UK Select Equity Fund, rated 'A' by OBSR and Standard & Poor's. Murphy believes that equities are attractively priced relative to other competing asset classes, whilst earnings expectations for 2010 are too low and sales growth is likely to be moderately better than current expectations.

Murphy explains:

"Although headline earnings expectations anticipate profit growth of around 20%, the bounce in the profitability of financials (due to lower provisioning levels) and resources (due to commodity price rises) suggests that this number is not overly optimistic, particularly given the tight cost controls during the downturn, which should allow operational gearing to be a powerful positive force in 2010. Meanwhile sales growth should benefit from a stronger than expected inventory rebuild, significant amounts of pent-up capital spending and the possibility of unemployment peaking sooner than expected, with some job creation causing consumer spending to hold up better than expected. This backdrop, together with attractive relative valuations, has the scope to lead to material inflows for the first time since 2000. This should result in a re-rating of the entire market over time, which will cause the bull period for equities to persist for the foreseeable future."

Murphy is maintaining his pro-cyclical stance and is overweight resources, notably mining and oil exploration & production, as well as having been adding to those financials which are consolidating their already strong positions, such as Schroders, Man Group, Barclays and Segro. Within industrials and consumer-related sectors Murphy's primary focus is on areas

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related to autos and housing, where volumes had fallen to overly depressed levels and even a modest rebound should feed through to improved earnings growth, with holdings including companies such as GKN, Inchcape, Tomkins, Galiform and Travis Perkins. However, he is keen to stress that his cyclical holdings are at the higher quality end of the scale.

Murphy comments:

“Our exposure to resources, financials, industrials and consumer-related areas means that the portfolio is currently highly cyclical, although our focus is very much on quality cyclical businesses where market positions are typically stronger as a result of the credit crunch than was previously the case. We have not been, and are not, buying low quality businesses that narrowly avoided going bust, have had a big valuation recovery and remain stuck in a fairly unappealing strategic position.”

Despite his optimistic outlook, Murphy remains mindful of a number of potential pitfalls, including the possibility of policy error, periodic market setbacks and sub-par economic recovery.

Murphy continues:

“The extent to which central banks and governments have been instrumental in fostering the initial recovery means that there is the potential for policy error, and the end of quantitative easing and transition to a rising interest rate environment will be a key test. We believe that policy is likely to remain accommodative for a significant period and an overly hasty exit from such a position would cause us significant concern. Notwithstanding this concern, we expect the prevailing bull market to continue for considerably longer than the eight months that we have just witnessed, albeit interrupted by periodic corrections and with share price appreciation at a slower pace than has been the case until now. The over-indebtedness of the consumer and the government and the need to repair bank balance sheets suggests that

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the recovery is likely to be sub-par, meaning that genuine growth companies are likely to attain premium ratings.”

In summary, Murphy reiterates his constructive outlook for the UK equity market for 2010 and the importance of flexibility in order to respond to the changing environment.

Murphy concludes:

“We are still finding plenty of high quality cyclical companies with considerably more upside potential, are conscious of opportunities to rotate into genuine growth and good value stable businesses and are actively seeking such opportunities as we move into 2010. Flexibility and pragmatism are central to our process and we will therefore adjust our thinking accordingly in response to developments in the real economy and the markets as and when necessary.”

**ENDS**

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**Notes for editors:**

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