
Global Market Outlook & Investment Strategy
Roy Asher
Chief Investment Officer, Ireland

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Roy Asher is the Chief Investment Officer, Ireland, for Aviva Investors and he joins me now. Roy, what is your market outlook and investment strategy?

Our base case, or central scenario if you like, is for volatility to return over the coming months. Even though many economists and the media have used the phrase 'the worst of the recession is over', and that indeed is correct from a point of view of falls in GDP which we've seen quite sharp falls in the last couple of quarters, that is correct but doesn't in itself guarantee a smooth recovery. And we actually think the recovery could be quite long and quite protracted. Indeed, historical evidence points to it taking some time. Right now there is a lack of demand in the global economy. This is inherent in the unemployment numbers where we're shortly going to see unemployment rates in the key US and the EU markets go above 10% for the first time in many years. We think it likely that this rate could stay above 10% for some time to come.

Obviously associated with unemployment is job insecurity, and it's obvious there is a lot of job insecurity around. That affects consumer behaviour quite markedly. It's unlikely consumers will want to spend, and certainly unlikely they'll want to borrow, despite tempting rates, while job insecurity remains. Likewise, companies are unlikely to invest heavily in that environment, and consumption and investment are obviously huge and key areas of growth.

So what does that mean for equity markets? Well it's not necessarily disastrous because much of what I've said is already contained in prices. However, we do

see quite a wide trading range, possibly as much as 30-35% over coming quarters, and this will be a result of markets oscillating between optimism when they believe recovery is occurring, policy is working, and profits can return to some sort of normal level. And then from time to time we'll see despair as we get poorer data points and a feeling that policy is being wasteful and hasn't worked. So this volatility or wide range should create opportunities, and opportunities we look to take advantage of are in the key themes of Asian demand, for example, and also the area of food security and food supply.

Turning to bond markets, we're a little bit less ambiguous regarding bonds. We believe there are three main pillars of support for bond markets. Firstly interest rates are at zero or as good as zero across all the developed world, something we've never seen before in our lifetimes. We think they're going to stay that way for at least the next year. The markets are starting to discount rises in interest rates early next year, we think that's premature and unlikely. The second pillar is inflation. Inflation is bad for bonds. We actually think the inflation story is a little bit of a red herring, particularly over the investment time horizon which is, say, eighteen months, two years. In fact to get inflation really moving you need wage growth and wage inflation, and the evidence there is quite to the contrary. Not only is there no wage growth, there's actually little bits of evidence of wage deflation.

The third pillar of support is valuation. The yields on many government bond markets, for instance, have picked up quite a bit over the last six months. For example, ten-year US yields have doubled since last December. So for those reasons we're quite positive towards quality government bond markets and quality corporate bonds. Our corporate bonds, we screen for companies which pay dividends through the cycle.

So briefly, in summary, we think the economic backdrop is quite different to anything we've seen in the last twenty five years, as a result the recovery will not be typical and, by inference, the market outlook cannot be characterised by a bull or a bear name.

Roy Asher, thank you very much.

Thank you.

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