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ASSET MANAGEMENT (C.I.) LIMITED

Investment Memorandum

A sharp setback to international equity markets in January caused by the Federal Reserve's tapering programme and associated concerns for some emerging markets, left markets modestly lower over the quarter. Yields in high quality government bonds generally drifted slightly upwards but this masks a strong showing in January. In the currency markets, sterling proved to be the strongest currency, with rises all round as more confidence in the UK's economic prospects led investors to believe that UK interest rates might rise earlier than expected.

The tables below detail relevant movements in markets :

International Equities 31.10.13 - 31.01.14

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	-3.3	-12.9	-10.9	-10.2
Finland	-2.7	-5.6	-3.5	-2.7
France	-2.0	-5.0	-2.8	-2.0
Germany	+2.9	-0.2	+2.1	+2.9
Hong Kong, China	-4.3	-6.5	-4.4	-3.6
Italy	+0.2	-2.9	-0.7	+0.2
Japan	+2.3	-3.8	-1.6	-0.8
Netherlands	-2.0	-4.9	-2.7	-2.0
Spain	+0.8	-2.2	N/C	+0.8
Switzerland	-0.3	-2.6	-0.3	+0.5
UK	-2.9	-2.9	-0.6	+0.2
USA	+2.1	-0.2	+2.1	+2.9
Europe ex UK	+0.1	-3.0	-0.8	N/C
Asia Pacific ex Japan	-3.8	-9.8	-7.7	-7.0
Asia Pacific	-0.9	-6.9	-4.7	-4.0
Latin America	-10.5	-18.4	-16.5	-15.9
All World All Emerging	-6.0	-11.9	-9.9	-9.1
The World	+0.6	-2.8	-0.6	+0.2

Source FTSE World Indices

FT Government Securities Index All Stocks (total return) : -0.1%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	31.10.13	31.01.14
Sterling	2.64	2.72
US Dollar	2.56	2.66
Yen	0.60	0.63
Germany (Euro)	1.69	1.66

Sterling's performance during the quarter ending 31.01.14 (%)

Currency	Quarter Ending 31.01.14
US Dollar	+2.5
Canadian Dollar	+9.2
Yen	+6.6
Euro	+3.3
Swiss Franc	+2.6
Australian dollar	+10.9

Other currency movements during the quarter ending 31.01.14 (%)

Currency	Quarter Ending
US Dollar/Canadian Dollar	+6.5
US Dollar/Yen	+4.0
US Dollar/Euro	+0.7
Swiss Franc/Euro	+0.7
Euro/Yen	+3.3

Significant Commodities (US dollar terms) 31.10.13 31.01.14 (%)

Currency	Quarter Ending 31.01.14
Oil	-2.2
Gold	-7.4

MARKETS

Over the quarter, international equity markets have tended to fall slightly. This reflects a very weak performance in January on concerns about emerging markets and a continuation of the US Federal Reserve's tapering programme. In local currency total return terms, the FTSE World Index rose 0.6%, in sterling terms it returned -2.8%, in US dollar terms -0.6% and in euro terms +0.2%. Looking firstly at local currency returns, the recent themes of weakness in emerging markets relative to developed markets continued with the divergence of performance being significant. Of the major markets or areas, the USA and Japan performed best with the FTSE USA index returning 2.1% and the FTSE Japanese Index 2.3%, whilst the FTSE Europe ex UK Index was barely changed at +0.1%. The movements within Europe were not significant, with the German market performing best with a return of 2.9% in the FTSE German Index. The UK was one of the weaker developed markets returning -2.9%. Looking at the areas of weakness, the FTSE Asia Pacific ex Japan Index returned -3.8%, but this was much better than the FTSE Latin American Index which returned -10.5% and the FTSE All World All Emerging Markets Index which returned -6.0%. For sterling investors, the returns worsened given the strength of sterling. Because of the weakness in the Australian dollar, a local currency return of -3.3% in the FTSE Australia Index turned into one of -12.9% in sterling terms. The positive return from the FTSE Japanese Index in local currency terms turned into one of -3.8% in sterling terms. The FTSE USA Index moved into negative territory in sterling terms, returning -0.2%, whilst the FTSE Europe ex UK Index returned -3.0% in sterling terms. The returns on the FTSE Asia Pacific ex Japan Index, the FTSE Latin American Index and the FTSE All World All Emerging Markets Index all worsened significantly in sterling terms, with returns of -9.8%, -18.4% and -11.9% respectively.

Although international bond markets, at least as far as the most highly rated ones are concerned, performed well towards the end of the quarter, there was a flight from emerging markets bonds into stronger credits. Overall, international high quality government bonds, as measured by the ten year benchmark issues, tended to show a modest increase in gross redemption yields with the exception of the German government bond. So, the ten year UK gilt gross redemption yield rose by 8 basis points to 2.72%, the US Treasury by 10 basis points to 2.66%, the Japanese government bond by 3 basis points to 0.63%, whilst the 10 year Bund showed a fall of 3 basis points to 1.66%. In the currency markets, as alluded to above, sterling was the stand out performer rising against all major currencies. Against the Australian dollar, it rose 10.9%, against the Canadian dollar 9.2% (both commodity currencies), against the yen by 6.6%, against the euro by 3.3%, against the Swiss Franc by 2.6% and against the US dollar by 2.5%.

In the commodity markets, oil, as measured by Brent crude, declined by 2.2% in US dollar terms, whilst gold, although off its worst levels, fell by 7.4%.

ECONOMICS

As we have indicated in recent reviews, most recently the year end one, the world remains a dangerous place economically, notwithstanding our belief that equities are the asset class of choice. We believe that they should show modest gains this year over the end December 2013 level but that bad news economically would cause setbacks along the way and that is what we have seen in January. The change in sentiment since the year end has been sudden, although the issues which have caused this temporary setback are not new. The issues, which are connected, are the US Federal Reserve's tapering of its quantitative easing programme and problems in some emerging markets whilst, at the back of everyone's mind, is China where the issues are the pace of economic growth and concerns about the banking sector. If we take a step back, everyone knows that the Federal Reserve's quantitative easing policy involving the creation of money and ultra low interest rates caused substantial inflows into emerging markets as money chased higher returns. At some stage, wherever quantitative easing has been practised, the programme will have to be reversed if inflation is not to ensue. That may seem a strange thing to say when many economists are becoming concerned about possible deflation. However, when sentiment does eventually turn and the newly printed money starts to circulate and raises the level of demand, capacity constraints will come into play at some stage. In other words, the output gap, the difference between what is actually produced and what can be produced, will disappear. At that stage, pressures on input prices, whether it be pay or raw material costs, will start to push prices higher. The reversal of quantitative easing can happen in different ways and at different speeds but, in the USA, stage one has started with the rate of money printing for fixed interest securities' purchases being reduced first to US$75 billion a month and now to US$65 billion a month. Providing there is no setback to expectations for the US economy, this process of gradually reducing the amount of money printed each month will continue until it stops completely and the Federal Reserve ends its fixed interest securities' purchases with newly created money. This may or may not be accompanied by a rise in short term interest rates and the indication is that they will not be raised in the foreseeable future. The final stage will involve the reversal of quantitative easing where the securities purchased with printed money are sold back to the private sector thus withdrawing the money which was created. So monetary policy, which has been exceptionally loose, is going to be tightened and, at some stage, this is going to involve rising interest rates and, probably, a stronger US dollar which is, of course, what has already happened as measured against some emerging market currencies. Last May, when Ben Bernanke first talked about the possibility of tapering, it set off a period of market weakness and hit emerging markets in particular. Developed markets then recovered their composure.

Capital flows can be indiscriminate. Emerging markets do not reflect an homogenous group of countries. Basis economics teaches us that countries running current account deficits and budget deficits are vulnerable because these need to be financed. This is where confidence comes in. If we take a developed country like the UK, it currently has a strong currency, as our table at the beginning of this review shows. However, the UK also has a large current account deficit (5.1% of GDP in the third quarter of 2013) which has to be financed. At the moment, this is easily being done because foreigners have confidence in the UK, either to invest in the country or to buy UK government debt. But, if anything happened to make the UK appear to be a more risky country, sterling could be highly vulnerable. In a number of emerging markets, there has now been shown to be little confidence and, at a time when the US dollar can be expected to benefit from tapering, money has fled from some of the emerging markets. However, investors have been selective and they have taken a close look at fundamentals. What triggered the bout of weakness in markets in January was the collapse of the Argentine Peso which, during the course of January, fell by 18.7% against the US dollar. Argentina has been following an unsustainable economic policy for a long time and its foreign currency reserves have been draining away. The South African rand has been another troubled currency in January. South Africa runs substantial current account and budget deficits and has been subject to periods of sustained industrial unrest, notably in the mining industry. The Turkish Lira has also been noticeably weak. Again, there are special circumstances although the country's weak current account and budgetary positions would always leave it vulnerable if sentiment towards emerging markets turned adverse. However, the serious political situation in Turkey could not have come at a worse time in terms of reinforcing negative sentiment and the central bank has had to raise interest rates sharply although if confidence is lost this tends not to be an effective policy. On the other hand, some emerging markets and developed markets in Asia and Latin America have seen their currencies hold up better because their fundamentals are much stronger. So, for example, strong countries like Singapore, Taiwan and Mexico (where investors are encouraged by the country's new reformist leader) have seen their currencies hold up relatively well in January. If we look back to the beginning of 2013 and calculate the weakest currencies against the US dollar to the end of January 2014, the weakest five (the biggest falls first) are Argentina, South Africa, Indonesia, Turkey and Brazil, all with their particular issues, whilst those which have held up well in Asia are South Korea, Taiwan and Singapore, all strong economies. So we can conclude from this that markets have been discerning.

One of the biggest challenges for stock markets is dealing with the ending of quantitative easing or the path leading up to it, which is where we are now, at least as far as the USA is concerned. If we take the case of the USA as an example, the gradual withdrawal of a natural buyer of debt could be expected to push interest rates up assuming that the financial position of the government has not improved so dramatically that it does not need to issue significant amounts of debt. The US Federal Reserve can influence very short term interest rates but less so along the maturity curve. Although longer term interest rates in the USA have risen sharply off their lowest levels, as the table at the beginning of this review shows, they are still very low and would appear vulnerable to continued tapering, the eventual end of money creation and, finally, the reversal process. But, at the moment, US Treasuries are benefiting from a flight to quality. It is interesting to note that the USA has been selling floating rate notes. It needs to keep potential buyers interested as it has an awful lot of debt to sell and debt where the interest rate is reset for each coupon should prove attractive to investors to protect them against rising interest rates.

Readers will have heard the expression about "fixing the roof whilst the sun is shining". In some emerging markets and parts of the eurozone, this refers to making necessary structural reforms whilst the pressure on them has been eased, rather than wait until they are backed into a corner and have no choice. There is an aversion to making significant structural reforms in many countries. In the eurozone, it is difficult to make such reforms in France and Italy, for example. In Asia, India comes to mind and, in Latin America, Brazil. On the other hand where structural reforms are under way (Mexico with Permex for example), the markets have rewarded the country in question. The reason why structural reforms are so important is that they should enable the potential growth rate of an economy to be raised and faster growth is the best way to deal with debt problems. However, nearly always, vested interests try to block or delay supply side reform measures.

Earlier on, we detailed the longer term potential dangers for inflation arising from quantitative easing even though nobody seems concerned about the resurgence of inflation in the short term; rather they are concerned about deflation, particularly in the eurozone. In the eurozone, quantitative easing has not been practised in the way that it has in the USA, UK and Japan. Apart from anything else, it would be very contentious, particularly in Germany. Where the ECB did undertake a Securities Market Programme, which involved buying troubled sovereign debt, it sterilised its intervention, so that it did not create money, unlike the other three countries mentioned above where intervention was not sterilised, i.e. the money used to purchase fixed interest securities was not neutralised. The ECB helped in other ways by providing liquidity for some eurozone banks which found it hard to attract money but this was not quantitative easing. So although monetary policy has been very loose in the eurozone, it has not been as loose as elsewhere and it has not been used to ward off deflation. To many of us, who have been used to the concerns caused by inflation, it may seem odd to worry about deflation but it can be equally insidious. By deflation, we mean a fall in price levels as against disinflation, a decline in the rate of increase of prices which is what is occurring in the USA, UK and eurozone, but not in Japan where the policy is actively to encourage inflation. The negative issues caused by deflation are that monetary policy, as implemented by interest rates, loses its power to influence an economy. Because nominal interest rates cannot fall below zero, real interest rates can rise as prices fall, and that may be highly undesirable and plunge an economy into a worse position than it was already. A second highly undesirable effect is that, because liabilities are fixed in nominal terms, a fall in the price level will raise the value of real liabilities thus causing financial problems for some businesses and individuals and, by extension, to the banking sector and, in so far as that happens, it depresses the economy or economies in question. It is the same for highly indebted governments. If an economy is contracting, the real value of its liabilities rises, as for everyone else, but its tax take is likely to be reduced in these circumstances. Its ability to service and repay debt, yet alone to borrow, is compromised, raising the spectre of default. Further aggravating the decline of economies in this position is the fact that businesses and individuals, believing that prices are going to continue to fall, will rationally hold off non essential purchases because they believe that they may be able to buy them more cheaply later on. This, too, aggravates the spiral of decline and demand falls.

This bring us on to the eurozone where concerns about deflation are most pronounced. Currently eurozone prices are just 0.7% higher than a year previously. Because of the currency union, individual countries have lost control of their monetary policy (and quite a lot of their fiscal policy, too) and they cannot use their exchange rate to restore competitiveness where it has been lost. Those countries which have been in trouble and which have sought bail outs are having to address their loss of competitiveness by internal devaluations. So instead of a weaker exchange rate pricing a country's goods and services back into markets, albeit at the expense of higher inflation later on if offsetting action is not taken, wage cuts and similar are forcing down unit costs but, at the same time, making it very difficult for these countries to show significant economic growth, and it is only growth that will really help to make a dent in a country's debt. So the actions imposed upon these countries and the other troubled but not bailed out eurozone economies to try to address their debt problems are self defeating and they do make deflation more likely. The debt dynamics, the likely profile of outstanding public debt growth and the ability to service it, remain very unpromising for a number of countries, which is why this current complacency in the eurozone is so misplaced. As well as the issues for some emerging markets, those in the eurozone may haunt markets from time to time in 2014. The German Constitutional Court has just indicated that it believes Outright Monetary Transaction are ultra vires but it has passed on its view to the European Court of Justice for its opinion. Whilst it is difficult to believe that the latter will agree with the German Constitutional Court, it has raised the level of uncertainty about the scope of the potential actions the ECB can take.

Just over a year ago, the USA's budget and debt ceiling issues were concerning markets but, for the moment, the USA does not have a major issue other than the Federal Reserve's tapering programme and that has started only because the Federal Reserve has more confidence in the US economy. It is true that the debt ceiling issue is on the agenda again but it seems not to command the level of attention which it did last year. The first estimate of fourth quarter GDP growth was 3.2% annualised, down from the previous quarter's 4.1%, but a great improvement of the equivalent quarter in 2012 when it was just 0.1%. The fourth quarter of 2013 year on year rate was 2.7%. The closely watched purchasing managers' indices have generally been strong but the one for January was unexpectedly weak at 51.3 compared with 56.5 in December. It is possible that this was weather related. However, that for services, the dominant section of the economy, was slightly higher at 54.0 and it has remained consistently well above 50 from last June. It is quite possible, as we have just said, that the manufacturing PMI was an aberration. The December unemployment rate showed an unexpectedly sharp fall to 6.7%, having been 7.0% in November and January's level has now come in at 6.6% although new job creation, again possibly weather related, was lower than expected. A word of caution here is in order because the employment participation rate is low in the USA so, if people drop out of the labour force or give up looking for employment, the unemployment rate can be flattered. Nevertheless, the downward trend through 2013 has been quite marked. In December 2013, the unemployment level was 7.9%. As elsewhere, inflation is subdued with the December year on year consumer price index 1.5% higher than the previous year. It is much better to start the gradual pull back of the quantitative easing programme from a position of strength, in this case low inflation, because it makes the transition to a normal monetary policy less risky. So far, it seems that the tax increases and spending cuts which started in January 2013 have not blown the US economy off course and the budget deficit is falling as a percentage of GDP. Without action to address long term budgetary problems arising from pension and social security issues, the trajectory of public finances will start to deteriorate. For the moment, however, the pressure is off.

However, although the eurozone is forecast to show very modest growth this year, it lags the USA, UK and Japan. The year on year rate of growth at September 2013 was -0.3% (the contraction of 0.5% in the final quarter of 2012 affected the figures significantly to put the figure into negative territory even though the following three quarters registered very small positive figures). The third quarter quarter on quarter growth registered just 0.1%. Looking at a slightly brighter outlook, the latest eurozone purchasing managers index for manufacturing stood at 54.0, quite well into positive territory, whilst that for services was less strong at 51.9 but still over the 50 level dividing growth from contraction. Even so, the performances of the various eurozone countries diverge quite strongly. If we look at the economic powerhouse, Germany, the latest PMI for manufacturing stands at a fairly strong level at 56.3 whilst that for services is 53.6. However, if we look at France, a different picture emerges, with the manufacturing PMI at 49.3 and that for services at 48.6. These are not isolated figures. Nearly all of the recent surveys have shown readings below 50. This and a lot of other evidence emphasises how the two largest eurozone economies are diverging. One of the original reasons put forward for adopting monetary union was that economies would converge, instead the opposite has happened and this inevitably puts pressure on the monetary union. The number two and three economies in the eurozone are a real concern. In France and Italy, structural rigidities are so entrenched and protected that it is difficult to see how significant supply side reforms to loosen those rigidities can be made without major social unrest. In France, Mr Hollande, having largely chosen the tax raising method to try to improve public finances, now realises that tax levels have reached their limits in France and are counterproductive. In his New Year address, he announced his conversion to supply side reforms to try to improve economic growth prospects. However, that is easier said than done in France and 2014 will be a very challenging year for the country. Although the country's credit rating has been downgraded, it has still been able to borrow what, by historical standards, would be considered very cheap money. However, if we use ten year eurozone government bonds as a guide, five other eurozone countries have government bond yields below those of France. France last balanced its budget in the 1970s and it is going to take a major effort to get government finances back on track. The sort of supply side reforms that France needs to improve its long term growth potential are an anathema to many people in France. France could be the Achilles heel of the eurozone. Not far behind, or perhaps even in front, is Italy with a very high level of outstanding public debt as a percentage of GDP. The political system and entrenched structural rigidities make change very difficult. Yields on ten year government bonds in Spain and Ireland are lower than those of Italy, again a warning sign of potential trouble if progress is not made in improving the growth potential of the economy. These and other examples show why the big fall in government bond yields in the bailed out or troubled eurozone economies should not cause any complacency. The political situation for the EU as a whole may become more difficult this year as eurosceptic parties are expected to perform well in the European elections in May. As for the long term view, the eurozone has the potential to cause a temporary upset in markets. The other issue, deflation, we discussed earlier.

In Japan, policy makers have gone for bust as far as economic policy is concerned with an extremely aggressive monetary policy aimed at stimulating the economy and changing inflation expectations. Earlier on, we talked about what deflation could mean for economic behaviour and Japan has suffered from this. Now the government and the Bank of Japan are trying to reverse that behaviour and get businesses and individuals to spend. The sharp depreciation in the value of the yen has helped Japan to move into a period of inflation (the target is 2%). The latest year on year inflation rate to the end of December, as measured by the Consumer Price Index, was 1.6%. In April, consumption tax is due to rise from 5% to 8%. Because of the country's dangerous budgetary and outstanding public debt position, it is necessary to take measures to improve the situation. The risk is that the tax rise will damage consumer confidence and be self defeating but that is a risk which Japan must take. Although most of Japan's public debt is held internally, the country cannot afford a loss of international confidence. The closure of much of Japan's nuclear power industry has raised imports to offset this and Japan is now running a trade deficit and potentially a current account deficit. Given the high level of public debt, an increase in interest rates occasioned by a loss of confidence in the yen could exacerbate the public debt problem, given the historic low financing costs. On a more positive note, the latest Nomura JMMA purchasing managers index stood at 56.6, its highest level for a long time. The latest year on year growth rate to the end of September was 2.4%, although growth in the third quarter slowed to 0.3% quarter on quarter, from 0.9% the previous quarter, and 1.1% in the first quarter. For companies involved in the export business or with big overseas operations, the fall in the value of the yen has boosted profits and the government will hope that this will encourage investment. There are three arrows to "Abenomics", monetary, fiscal (a big spending programme) and a third one which is structural reform with supply side actions in labour and product markets and trade. Like some of the eurozone countries, Japan has significant structural rigidities which stifle the country's long term growth potential. Without addressing these, and as in France and Italy these are difficult, the first two arrows will not succeed. Until we have more clarity, Japan is going to be a high risk/high reward economy.

China is keeping everyone on the edge of their seats as the country's rulers attempt to adjust the profile of the economy more towards consumption and away from fixed asset investments and exports. Such a move will entail a reduction in the rate of China's very fast growth rate but should improve the quality of economic growth, but it is, of course, a very fine path to tread. Overinvestment and unproductive investment financed by banks threatens to cause problems in the sector and there is concern about the shadow banking sector which is very important to the Japanese economy. Growth in China slowed down slightly last year to 7.7% from 7.9% in 2012, 8.9% in 2011, 9.8% in 2010 and 10.7% in 2009, so it has been on a declining trajectory. Importantly, the authorities have been able to keep inflation under control. From a recent peak year on year level of 6.5% in 2011, the latest figure is 2.5% and it has stayed in a narrow range in 2013 which should ward off interest rate concerns which could slow down the economy. Overall, the purchasing managers indices suggest that the economy is in a fairly narrow band of growth around the levels currently seen. Whilst the latest HSBC Flash Manufacturing PMI is slightly below 50 at 49.6, the official index for manufacturing stands at 50.5 and for non manufacturing at 53.4. Given the problems facing some emerging markets, it is important that growth stands up in China. Of longer term importance is the elevation of the market place in the Chinese economy. Although there has been a largely negative attitude to China recently, as evidenced by the stock market performance, the potential, if the new economic course, which is being plotted, succeeds, is substantial. China assumes ever increasing importance for investors.

Finally, a nice surprise from the UK. Out of nowhere, it seems, has come a remarkable economic transformation, albeit from a very low level. Only a year ago the IMF was issuing dire warnings about the UK; now it is raising its economic forecast for this year. What has happened ? Many believed that, even though the UK had horrendous debt metrics, a period of austerity would make things worse. However, when a country is borrowing as much as the UK was and is, the risk of increasing spending above planned levels and therefore borrowing more in the short term, is substantial. A loss of confidence in the country, a sharply declining exchange rate and a rise in interest rates, which would most likely follow, would be disastrous. For the UK, the wisdom of not joining the euro has been evident and foreign investors can have confidence in a country which is tackling its debt issues. In fact, because of the bad international economic situation, the government's original target of debt reduction has been pushed back and it has allowed the economy's automatic stabilisers to work rather than aggressively following a pro cyclical policy to try to reduce debt, which is what the policy is in the eurozone and which is causing so much grief. Unemployment has fallen sharply giving a problem to the Bank of England because its forward guidance did not anticipate unemployment falling so rapidly. Its 7% figure for unemployment as a benchmark looks as if it will be reached this year rather than 2016 (it is 7.1% now) but the probability is that interest rates will remain at the current level for the foreseeable future. With nearly all of the indicators pointing the right way, growth of around 2.5% is quite possible this year and economic growth is the best way to eat into the debt burden. Of course, the balance of growth is not perfect. One would prefer it to be led by business investment and exports rather than consumption and housing, and the current account deficit, to which we referred earlier, is too large for comfort but, despite its debt problems, the UK is in a far better position than the eurozone. Currently, our biggest concern about the UK is the poisonous anti business sentiment which is being stoked up in certain quarters. This will be noticed abroad and the current success of the UK in attracting foreign investment should not be taken for granted. The example of France with its perceived hostility to business and the fall off in foreign direct investment into the country should be a warning to those who peddle anti business sentiment. This could be a stock market factor for the UK this year.

As this is written, the main concern of investors is emerging markets and we have outlined in this review why some of them are vulnerable (weak external and internal finances). However, they are likely to continue, over the medium and long term, to continue to show higher growth rates than present developed markets and to drive world economic growth. Even a 7% growth rate in China, now the world's second largest economy, is very significant. So whilst emerging markets look like being one of the factors which can destabilise equity markets this year, there is no reason to suggest that alternative assets like bonds will prove better investments than equities. It is true that high quality bonds have benefited from unsettled conditions in January but the yields do not provide any sort of attractive return unless the world moves into significant deflation and we do not see that happening. It is important for companies to grow their earnings through revenue increases and the expectation in the main markets is for modest rises in earnings this year. This is necessary because of the multiple expansion last year. Overall, our view remains the same, namely that equities are likely to show a modest rise overall this year, interrupted by bouts of weakness, caused by economic factors, such as those we have seen in January.

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