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Investment Seminar

Market Outlook

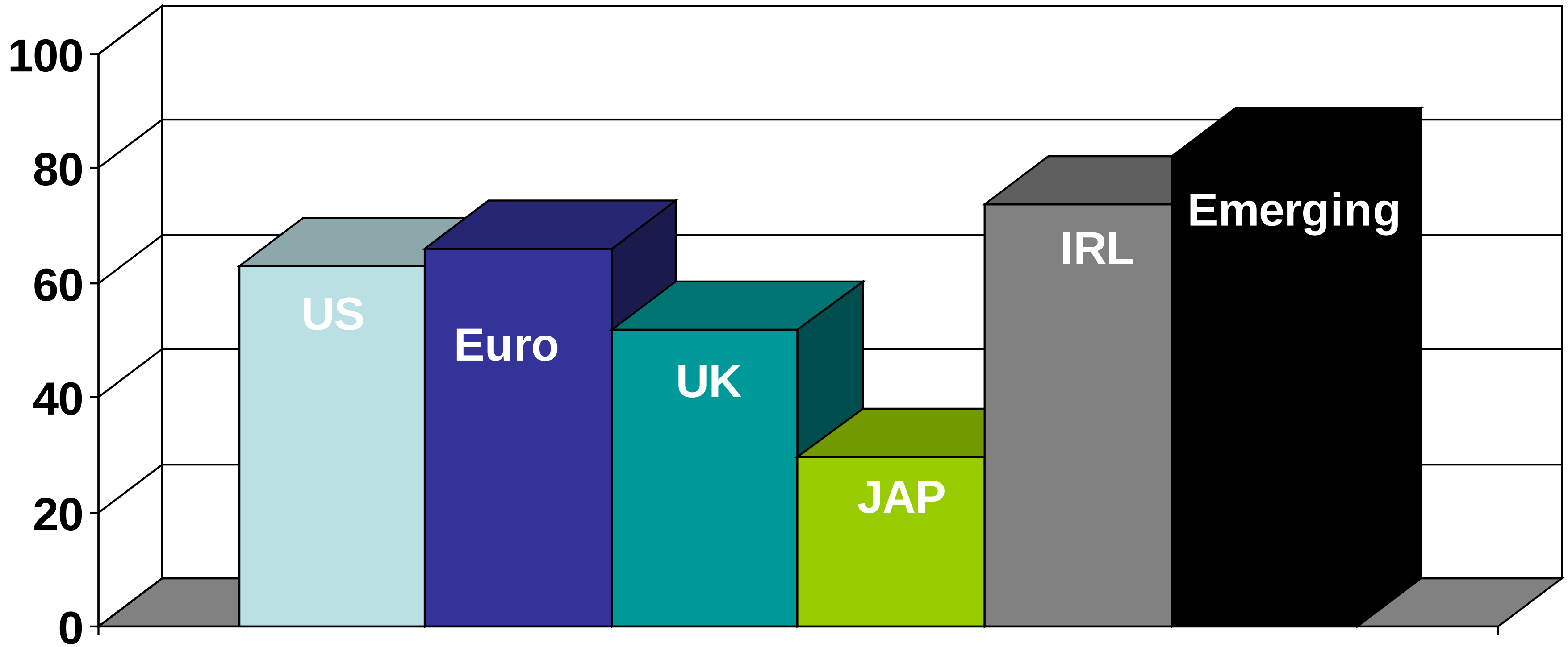
KBC Asset Management

Eoin Fahy

Chief Economist

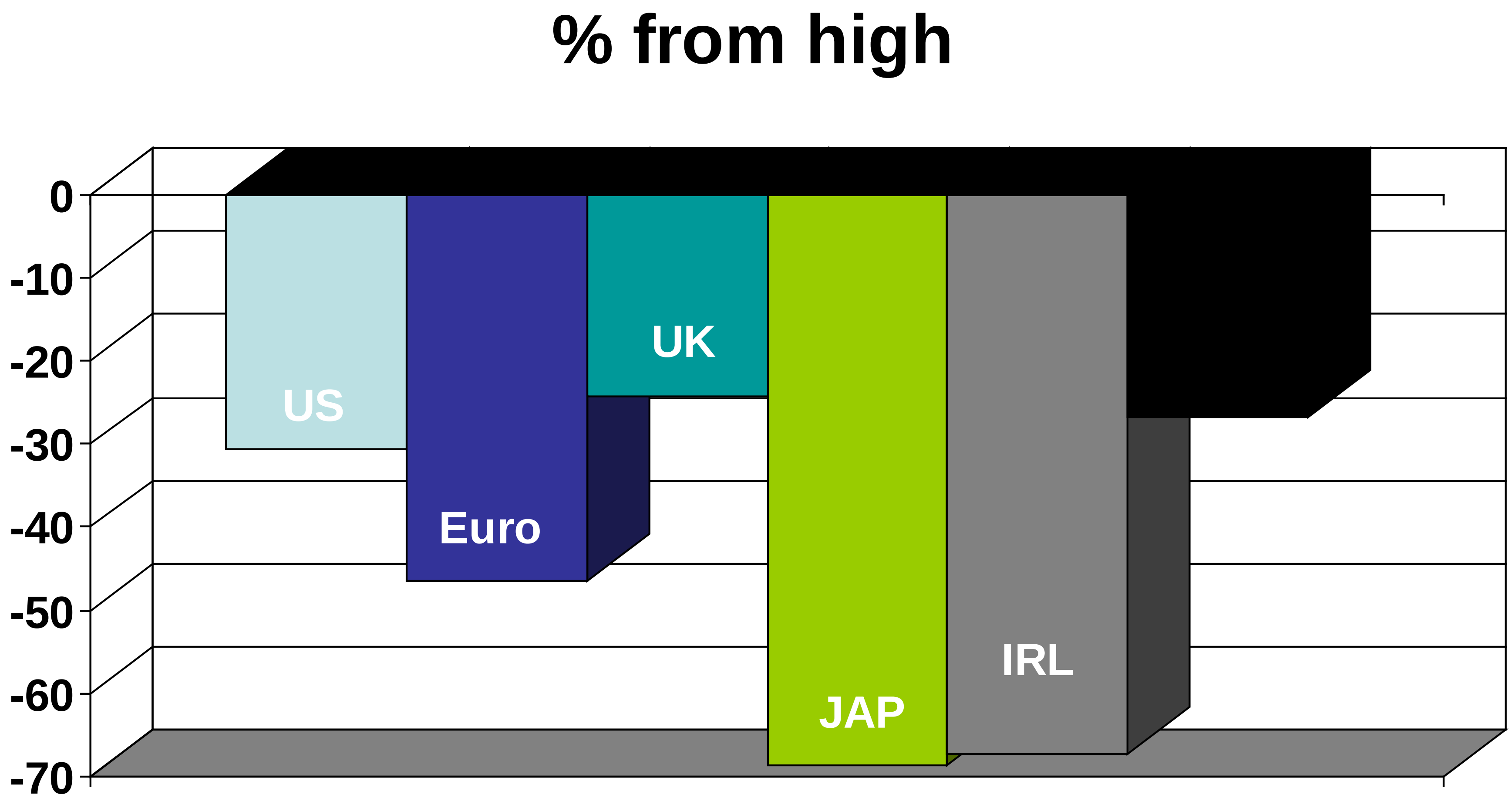
The Good News

% from low



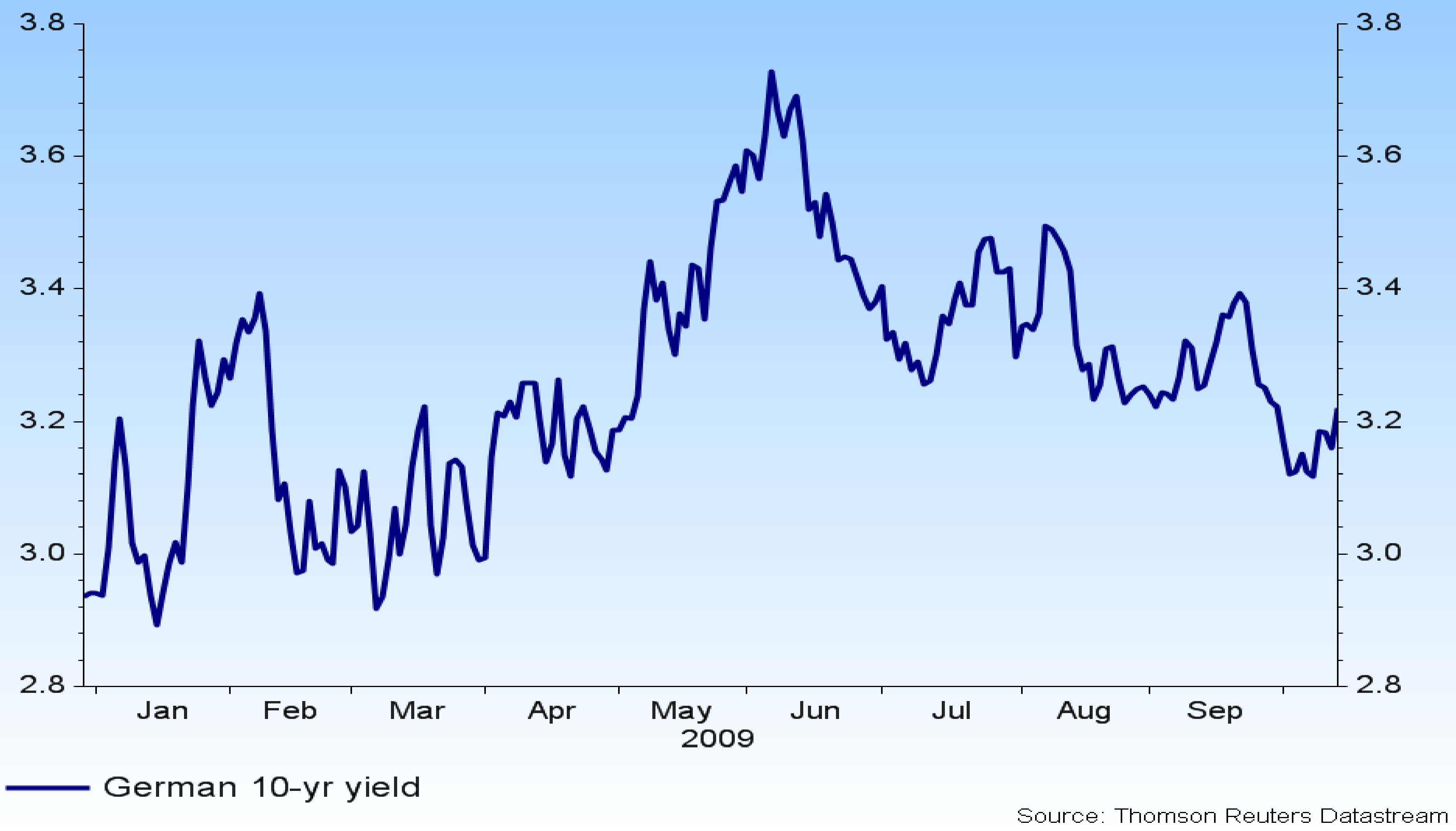
Source: Bloomberg, measured as % change from 52-week low, as of 19/10/09. US: S&P. UK: FTSE 100. Euro: Stoxx 50. Japan: Topix. Ireladn: ISEQ

The Bad News



Source: Bloomberg, measured as % change from all time high, as of 15/10/09. US: S&P. UK: FTSE 100. Euro: Stoxx 50. Japan: Topix. Ireladn: ISEQ

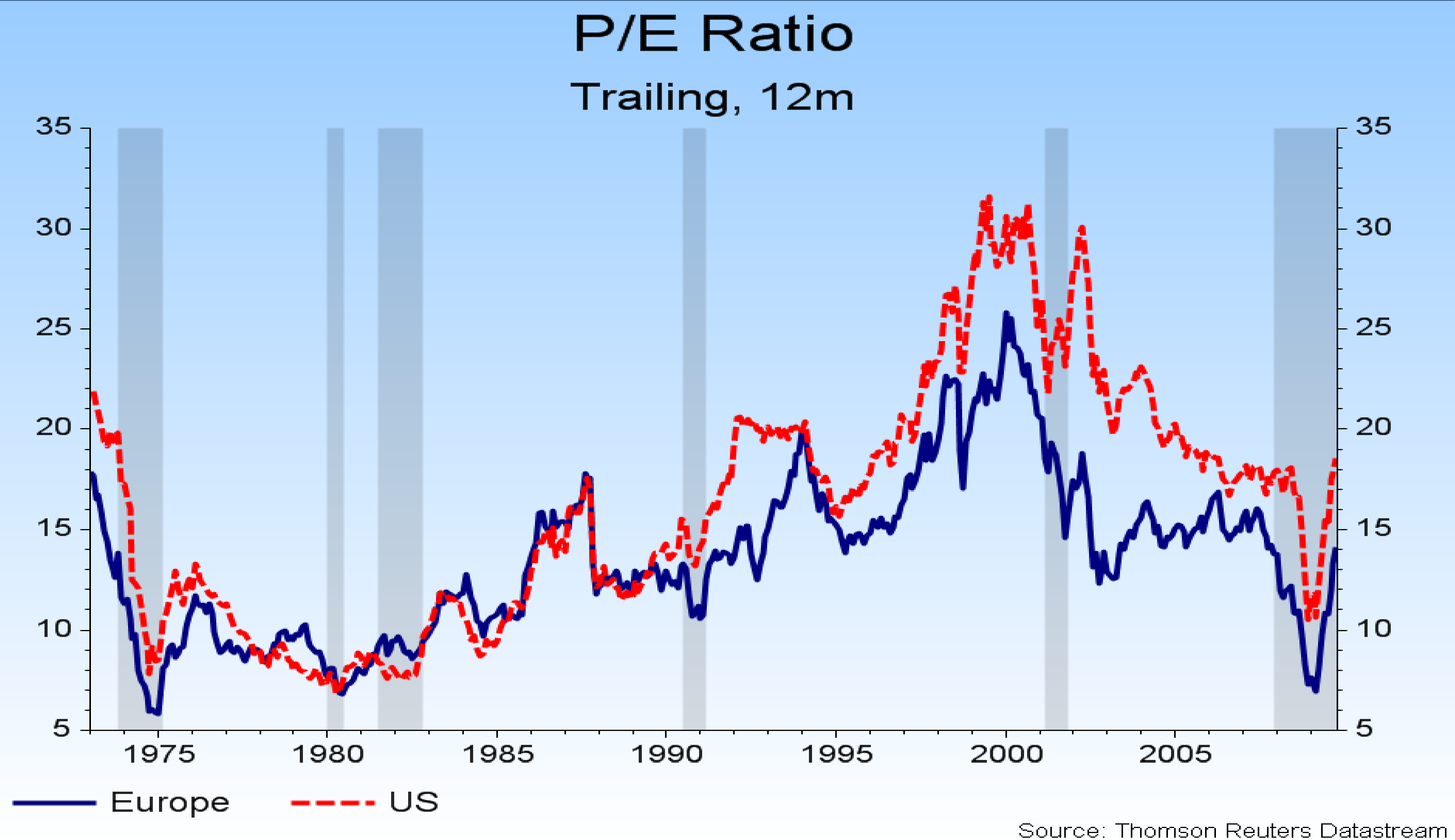
The Bond News



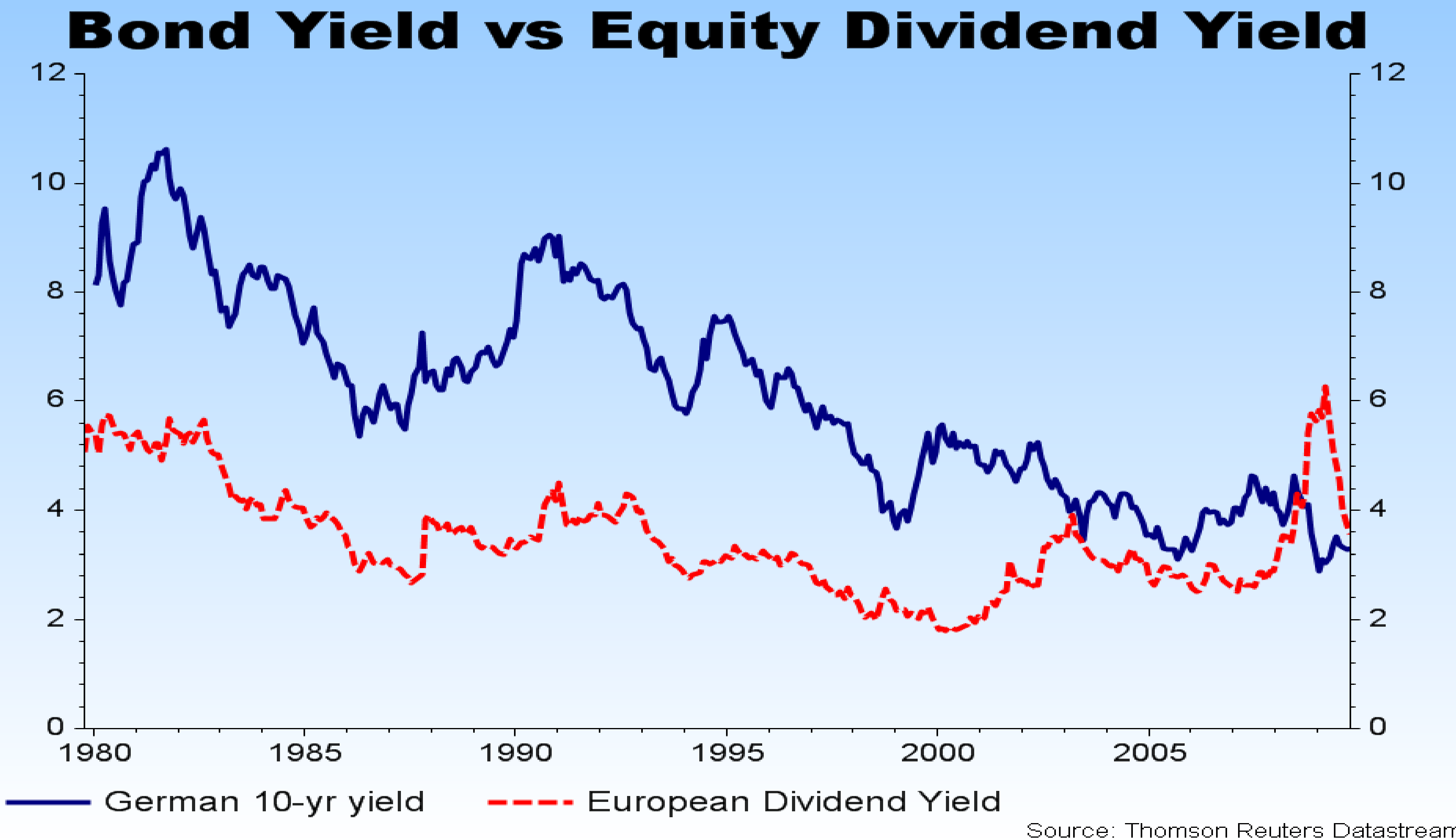
Equities: why the gains?

- Stabilised banking system.
- Central banks: ‘will do what it takes’ to get economies moving.
- Valuations were at extremely cheap levels.
- China held up well.
- So Great Depression II fears faded, and recession now almost certainly over.

Equities: Where Now?



Equities: Where Now?



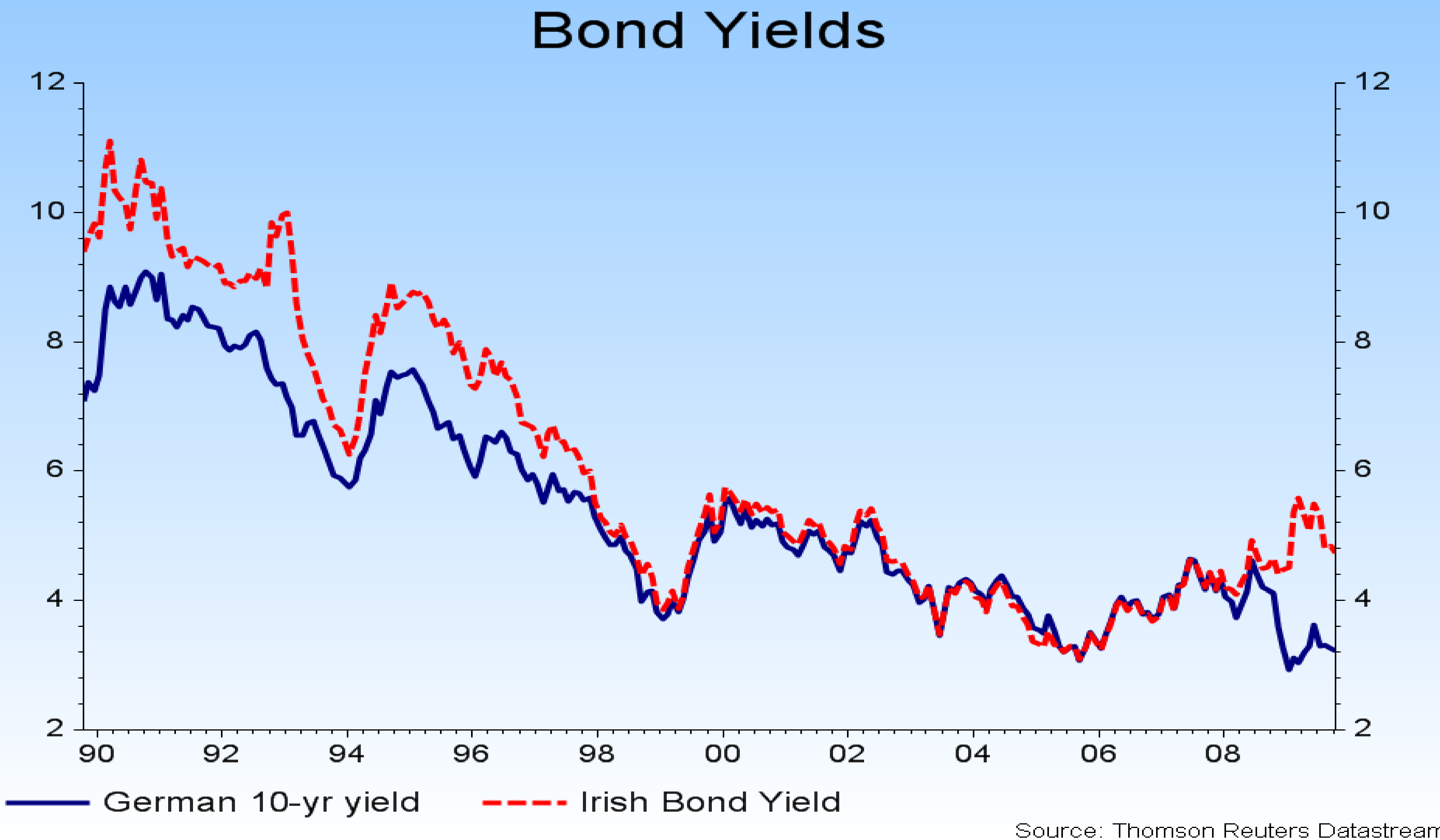
Equities: What Next?

- Valuations now close to “fair value”/historical averages.
- Gains from here will probably be driven by earnings growth.
- Valuation “bubble” *possible* – excess liquidity.
- Earnings growth: operational gearing (strong) and economic growth.

Growth: Where Next?

- Shape of the economic recovery crucial.
- Chances of double-dip, or Great Depression II, are low – central banks and govts. will do what it takes.
- But structural headwinds remain:
  - High consumer debt
  - Extremely high government deficits
  - Negative equity/repossessions – worse to come.
- Conclusion: Unwise to presume recovery will be normal (but also to think it won't continue).

Bonds: Where Now?



Bonds: Where Now?

- Negative inflation.
- Fears of depression (less so recently).
- Central banks buying vast amounts of bonds.
- Short-term interest rates anchored at very level.

Bonds: Late 2010 (say)

- Economies growing for a year or more.
- Inflation low, but certainly no longer negative.
- Official interest rates rising steadily in US, EU, elsewhere.
- Central banks have stopped buying bonds.
- Govts. thinking about ways of reducing deficits, but little progress so far.
- Ten year yield will be….?

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Bonds: But……

- The real case for buying bonds may have little to with current prices/yields.
- Trustees may have little choice given need to reduce volatility.
- As always, though, timing does matter.
- But how clever do trustees want to try to be? The great unknown.

What's Next?

- Equities to move higher, but in volatile manner, and at more modest pace.
- Bond yields to be under pressure, likely to rise.
- For trustees, maybe a 'pause for breath' to look at the right investment strategy, maybe with an emphasis on diversification/ risk management?

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