

MARKET COMMENTARY - SEPTEMBER 2011



Bob Brown
Chairman

Welcome to the latest edition of our quarterly 'market update' newsletters, where we share our thoughts on what has been happening recently, and more importantly, what we believe will be the key influences in the near future.

The consequences of the credit crunch and the near collapse of the banking system and the concomitant sharp setback in economic activity continue to reverberate around the world. The resulting excessive debt has finished up in government hands.

The standoff between the Democratic administration and the Republicans to raise the debt ceiling was always bound to be resolved at the last minute. The vacillation and squabbling, however, caused Standard & Poor's to downgrade the rating on US debt. This in itself is probably unimportant, and US Treasury yields fell not rose on the news, further reducing borrowing costs for the US Government.

The European situation is more problematic. The European Facility Stability Fund would appear to have stabilised Italian and Spanish bond yields at 5% after they briefly rose worryingly above 6%. The well documented problems of Greece, Ireland and Portugal are also weighing on the European banking system.

While US and European governments exhibited a lack of leadership and ability to control difficult situations the world economy appears to have slowed sharply. There is a real danger of a double dip so soon after the last recession.

In stark contrast the corporate sector worldwide is mostly in rude health. The negligible yield on cash will last a long time. In March, when we last reported ten year gilt-edged yields were 3.7%, now they are a miserly 2.6% - well below the rate of inflation. The yield on the UK equity market is 3.5% with the likelihood of continuing dividend growth. It offers a range of diverse opportunities and good value.

MANAGED FUNDS



Glenn Meyer
Head of
Managed Funds

A quick 'phone call can make all the difference. After a chat between Prime Minister Papandreou, President Sarkozy and Chancellor Merkel it looks as though Greece will now get the short term funding it needs from the IMF to pay its civil servants and pensioners in October and to pay next month's loan interest. Markets rallied on relief that an immediate crisis had been averted, but we remain wary that a long term solution can be easily engineered. It seems the best that can be hoped for is that Greece agrees an orderly default on a large chunk of its debt and that the leaders of the Eurozone cobble together a European wide bond market so that strong nations support the weak. Both ventures are fraught with difficulty and we are likely to see ongoing high levels of volatility in world markets in the face of a continued slowdown in world economic growth and an inability among political leaders to agree on an effective policy solution.

Time may prove to be a great healer and this, along with a hefty dose of inflation (to reduce the value of government debt), will probably be what will get us back onto a sustainable growth path. In these circumstances we have used market weakness to increase exposure to equities, reduced the weighting to property (which had remained flat) and, in portfolios with bond exposure, we are introducing a small weighting to global bonds, in order to benefit from the relative attraction of government bonds in countries with low debt to GDP and a trade surplus to support the currency.

With so many obstacles to sustainable growth it is difficult to find positives but company balance sheets remain strong, profits expectations are largely being met, valuations are low and dividends are growing. We believe this dividend growth will be the engine that can deliver long term above inflation returns to investors.

BESPOKE PORTFOLIOS



Alan Beaney
Investment
Director

We have mentioned in previous editions that our Private Clients have access to some of the discounted share purchases (IPOs, placings, new issues etc) that our Institutional clients participate in, and some good examples of this are the recent placings by 3i Infrastructure, Elementis and Sportingbet. Many of these were oversubscribed on launch, but due to our long established contacts in the City, we were able to secure holdings for both Institutional AND Private Clients on launch.

If you like the idea of participating in these type of discounted opportunities, but your client doesn't have sufficient for a bespoke portfolio, we also manage The Marlborough UK Primary Opportunities Fund, specifically for these type of deals.

ETHICAL PORTFOLIOS



Oliver Brown
Investment
Director

There is continued strong interest from clients in being able to apply ethical and environmental influences to their portfolios, and as we have previously mentioned in our newsletters, we understand that each of us has our own definition of what ethical investing means. This is why we offer a 'bespoke' ethical portfolio service for sums of £250,000 and over, that we can absolutely screen according to the clients wishes.

We also manage The Marlborough Ethical Fund, to the same criteria as our largest charity client (The Joseph Rowntree Charitable Trust) so if you are looking for an ethical fund to add to an existing portfolio, we can help you there also.



INDICATIVE PERFORMANCE CHART

		1 year to 31/8	3 years	5 years
Balanced Portfolios:	Managed Funds	7.25%	n/a	n/a
	Bespoke	7.20%	n/a	n/a
	APCIMs Index	6.60%	-	-

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