Kleinwort Benson Investors

UPDATE

May 2012

MARKET COMMENT

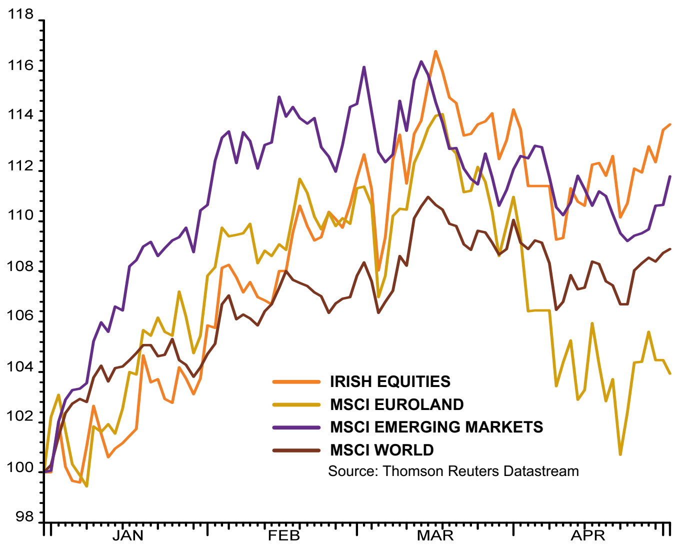
Following a very strong first quarter equity markets paused for breath in April on the back of some negative headlines during the month. The eurozone crisis came back to the fore again with somewhat weaker global economic data also worrying investors. Over the month global equities fell moderately by 0.5% (MSCI World in euro terms) while eurozone bonds were broadly flat (ML >5yr Euro Govt Bond Index down 0.2%). Global equities thus remained firmly in positive territory since the beginning of the year with a return of +8.4% to the end of April.

In relation to regional equity performance over the month, the US S&P 500 was flat in euro terms while eurozone equities as measured by the MSCI EMU Index fell 4.9% as worries over peripheral eurozone economies intensified. Asian markets however posted positive returns over the month with the MSCI Pacific Basin ex Japan index rising 2.2%. This was in part driven by more recent improved sentiment surrounding the prospect of China's economy experiencing a soft landing. On the currency front the euro was notably weak, particularly against the Japanese Yen and Pound Sterling which are both perceived as safe havens from the troubled euro area. In general there was little movement in commodity prices as mixed economic data releases over the course of the month gave little direction to markets.

Economic news in eurozone was dominated by Spain with rising Spanish unemployment adding to woes following the S&Ps credit rating downgrade for the country. Official data showed Spain's unemployment rate rising to 24.4% while GDP statistics showed that the country moved back into a technical recession in Q1. The UK economy also fell back into recession with a second successive quarterly drop in GDP, albeit very marginal. Across the Atlantic the sluggish rate of US growth came as more of a disappointment with US economic growth slowing from an annualised rate of 3.0% in the fourth quarter 2011 to 2.2% in quarter one 2012.

To cushion slowing exports, the Chinese central bank has been gradually easing monetary policy and fiscal spending has also increased on large-scale projects such as the construction of affordable housing. Other emerging market economies, notably India, have also eased monetary and/or fiscal policy to boost economic growth, in a trend that is likely to continue through the rest of the year.

Year to date returns to 30 April 2012 (in Euro terms)



Kleinwort Benson Investors Outlook versus Benchmark Positions - 6 Month Time Horizon

	Ireland	Euro zone	UK	Rest of Europe	US	Japan	Pacific Basin
Equities	□	⇩	⇩	⇩	⇧	⇩	⇧
Bonds	⇩	⇩	⇩	⇩	⇩	⇩	N/A
Property	⇩	□	⇩	□	N/A	N/A	N/A

⇧ = overweight

□ = neutral

⇩ = underweight

VIEWPOINT

After a first 3 months of the year where equity markets were buoyant and global economic data was stronger than expected April has seen markets pause to take stock. Furthermore key economic data released in April has in general been weaker than in the first quarter, coming in below consensus estimates and forecasts. Should this weakening data give cause for concern and suggest that investors adopt a more cautious attitude to equity exposure?

We in KBI think that while investors are right to be cautious about the uncertain economic environment, the weaker data is very far from being compelling evidence that the global economy is moving off a recovery path. To expand on this it is helpful to assign reasons for the better sentiment that abounded in Quarter 1. This can broadly be attributed to three factors. The first and most significant was that the ECB's Long Term Financing Operation (LTRO) was more successful than anticipated by markets and probably took the "doomsday eurozone" scenario off the table. Secondly economic data surprised on the upside, particularly from the US and thirdly most investors were underweight equities in their portfolios and therefore were going to commit cash to equities once there were signs of stock market recovery.

April saw a pause in the central bank activity that was central to the improvement of sentiment in the previous four months. In addition weaker US data, slower growth in China and a renewal of concern about Europe also troubled investors over the month.

This is certainly not the first time since the last recession that we have seen periods of weak economic data which have spooked markets. You may recall as recently as last summer we saw a run of poor data for the US economy which triggered concerns about a "double dip" recession. In KBI we delved down deeper into the factors driving the US economy and determined that an economic recovery was still on track and positioned our portfolios accordingly. This view was validated when the autumn months saw better than expected economic data and talk of a "double dip recession" vanished very quickly. We view the mild weakness in data in April in a similar light. This economic recovery is very moderate and impacted by austerity measures being introduced globally. However the core strength of the US economy, the soft landing expected in China and the gradual resolution of the Eurocrisis (albeit acknowledging it has a number of steps to go and is painfully slow) should see the global economy stay on track, supporting current equity market valuations.

KLEINWORT BENSON INVESTORS FUND ACCESS

Kleinwort Benson Investors manage a range of environmental-thematic, high dividend, diversified alternatives and managed funds which are accessible to the broker market through select insurance company arrangements.

CONTACT

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