

For immediate release

Risky business: short-term risk prevails, with the prospect of longer term growth

London, 22 October 2014

Mike Allen, CIO of Momentum Global Investment Management gives his current global market outlook:

“Global markets are correcting as they adjust to reduced growth expectations, an increasingly difficult environment for earnings growth and the challenge of the first increase in US interests rates since June 2006. This weakness is likely to continue in the short term but the search for higher returns and the prospect of continued loose monetary policy for some time ahead may well provide support in some markets.

“The UK, for example, is reasonably attractive but remains vulnerable to resource price normalisation through its over-sized allocation to resource companies and due to knock on effects from the EU. Wider Europe remains somewhat cheap, but there is a risk of negative growth in the region. It is also the most over indebted developed region. Ultimately, the macro story and the lack of valuation extremes, suggest caution in this region. In the longer term, Europe needs some sort of political and banking consolidation, but the ECB is calming waters for now.

“In the fixed income market, on a medium term outlook government bonds yields are not attractive and asymmetry of potential returns from this asset class is stark. Like their nominal counterparts, linkers are ultimately expensive. Nonetheless, compared to a conventional government bond they could provide some protection against unexpected inflation, given that many market participants are expecting a relatively benign inflationary environment over the next few years. Elsewhere, investment grade remains a decent play against government bonds. Our positive views on corporate credit health mean investment grade is a reasonable replacement for government debt, but if taken in isolation the asset class is not particularly attractive.



“Looking at currencies, the dollar appears to be at or near fair value. The Fed is on the verge of a slow unwind of extraordinary monetary policy but interest rate increases could still be pushed back if the economy falters. With the Euro, sovereign issues are beginning to weigh. It is likely that the euro zone will require low interest rates for the foreseeable future and this appears to be increasingly priced in. A weak yen is good for the Japanese economy and as a result we expect to see continued downward pressure applied by the Bank of Japan. This may serve to weaken the yen further, but at the very least it should provide significant resistance to the upside.”

Ends

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Notes to editors

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