

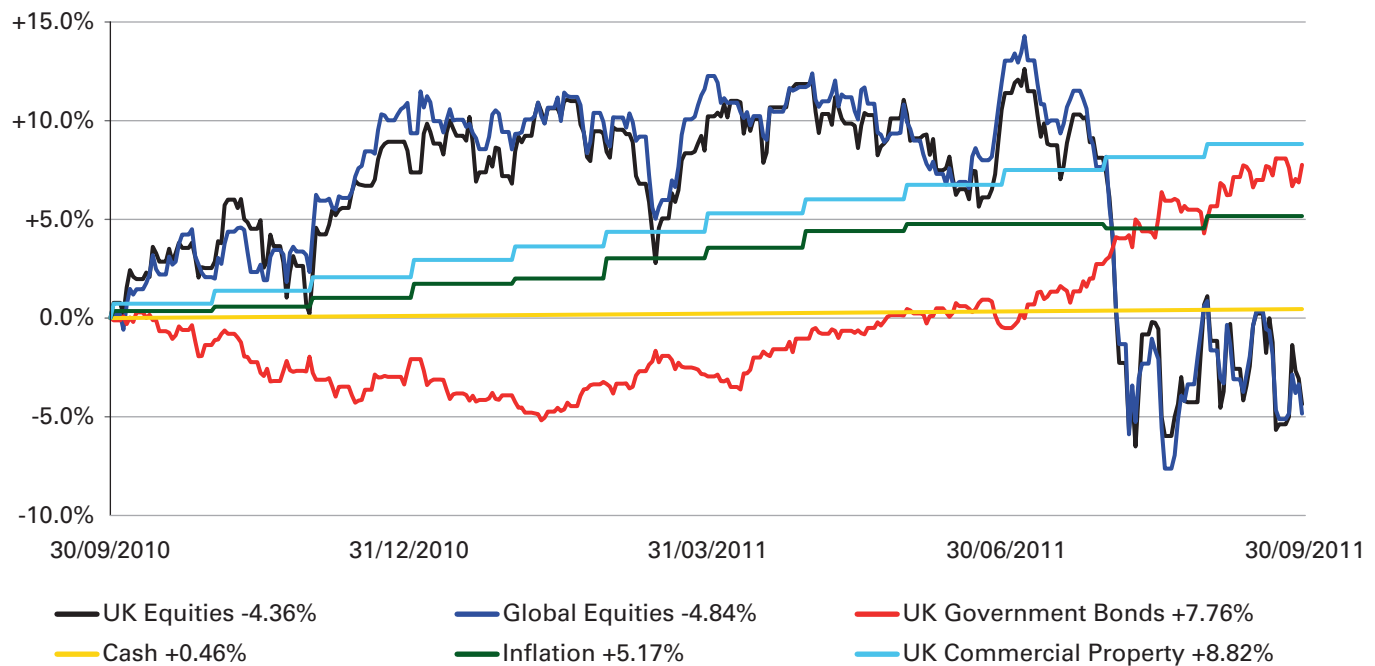
# CCLA INVESTMENT MANAGEMENT LTD

## MARKET REPORT SEPTEMBER 2011

### Headlines

- Global equities suffered further weakness.
- In fixed interest markets, government bonds were well supported but corporate bonds were mixed, higher rated issues were the strongest performers, poorer credits saw yields rise.
- Commercial property values were steady overall although secondary assets saw some price weakness.
- Sterling rallied against a weak euro but lost ground against both dollar and yen.

### Investment market returns over the past year



Sources: Bloomberg, IPD, FTSE All-Share Total Return Index, FTSE All-World Total Return Index, FTSE UK Govt All-Stocks Total Return Index, IPD Monthly Total Return Index\*, 7 day LIBID, Retail Price Index\* (\*Lagged by 1 month).

### Market review

Global equity markets weakened once again, continuing the negative trend which has characterised recent months. Investor attention was fixed on the euro crisis and as time passed without a clear path or resolution being identified, so confidence withered and prices moved lower. The FTSE All-World Index fell by -5.41% to end the quarter -14.97% lower to a sterling based investor. The return for 2011 to date is -12.98%, for the past 12 months is -4.84%. All of the major regional markets declined in local terms although exchange rate factors converted a minor decline in the Japanese market into a sterling gain of +3.06%. The US market fell by -2.88%, Europe by -8.47% and Asia by -9.56%. There were steep declines in a number of individual markets. In Asia, Thailand, Singapore, Australia, Hong Kong and China all fell by more than 10%. In Europe Norway, Finland, France, Austria and Greece were similarly weak. The Greek market index declined by -44.70% over the quarter. Against this background of general weakness falling prices in the UK were inevitable. The FTSE All-Share Index declined by -5.01%, smaller companies fell more (-7.36%) and in the cautious environment lower rated 'value' stocks outperformed those rated for growth.

UK government bonds were well supported again and good quality corporate bonds also were in strong demand. In contrast, lower rated issues eased back, neglected by investors searching for safe havens. The FTSE Government All-Stocks Index returned +3.33% over the month, the iBoxx Sterling non-gilts AAA Index +2.33% but the BBB Index of the same series showed a fall of -1.32%.

Commercial property returns were positive overall but the divergence between good quality, income secure assets and those with secondary characteristics continued. This latter category of assets saw erosion of both capital and rental values. At the sectoral level, offices in London remained the best performer, shops fell back in the aftermath of poor sector news.

In currency markets, the main feature was weakness of the euro, which declined generally. Sterling rose by +2.92% against the European currency but fell back against both dollar (-4.10%) and yen (-3.60%).

## Economic developments

In Europe, the Greek government was forced to adopt additional austerity measures in order to qualify for the next tranche of funding from the ECB /IMF. The latest estimates for the Greek budget deficit for the current year emerged at 8.5% of GDP, down on the 10.5% experienced in 2010 but still substantially above the target of 7.5%. The problem is the self feeding nature of a cycle where an already poor economic performance is being weakened further by the spending cuts and unemployment increases that the austerity programme is creating. The Greek economy will shrink by about -5.5% in 2011 and a further -2.5% in 2012 ( although -2.5% seems a little optimistic in current circumstances). How a much smaller economy is expected to service a much higher level of debt is far from clear and that is why markets are forecasting default in the near future. The lack of a solution to the crisis has meant continued pressure on Italy and Spain. Italy has adopted €55 billion of cuts in spending which, if fully enacted, should help balance the budget in 2013. Investors remain sceptical however and the ECB has been forced to stay a regular and substantial buyer of debt in a programme designed to keep Spanish and Italian long term yields at affordable levels.

Concern over output levels and worrying trends in the lead indicators of economic activity spurred the Federal Reserve in the United States to seek ways to stimulate activity in a political environment where government initiatives were unlikely to be forthcoming. The 'Fed' has begun 'Operation Twist', a strategy intended to put downward pressure on long term interest rates and so support mortgage payers and hopefully encourage industry to invest. The intention is to sell \$400 billion of very short term bonds and reinvest in longer maturities, effectively changing the shape of the debt market but not its overall size.

Similar concerns on growth also came to the fore in the UK. The IMF joined a substantial body of forecasters who had reduced their expectations for output growth in the coming year, down to 1.1% and now broadly in line with the current consensus. UK consumer activity ( more than 70% of overall output ) remains flat and sentiment is being damaged further by weak employment conditions. Pressure from spending cuts has meant that 250,000 public sector jobs have been lost over the past year, 110,000 in the second quarter. With future growth a critical component of the deficit reduction programme, signs of stalling activity have been met with talk of a further phase of quantitative easing, probably to be announced either this month or more likely in November. The minimum probable scale of a programme is £50 billion, more is quite possible.

## Outlook

Recent market weakness reflects an increased concern that the scale of the challenges facing the world economy are such that recession is increasingly a possibility. The risks are real enough; a lack of political agreement in the USA, the complexity of the issues facing Europe and slowing growth trends in the emerging economies is a potent combination of factors which together could have a damaging effect on total activity levels. Our overall expectation is that this outcome will be avoided, but that is not to say that growth will be robust. A low growth environment is one where inflation will gradually fade and where interest rates will remain at ultra low levels.

We expect good quality property values to hold near current levels for the near term but are wary of secondary assets. We still consider fixed interest markets to be overvalued but, as recent price trends have shown, simply being expensive does not mean that an asset will immediately weaken. Over time we expect prices to adjust substantially. We are long term supporters of equities and see very good value at current levels but recognise that volatility will remain high until some of the major uncertainties facing investors are satisfactorily resolved.

**CCLA INVESTMENT MANAGEMENT LTD**  
**80 Cheapside, London EC2V 6DZ**  
Client Service T: 0800 022 3505 F: 0844 561 5126  
[www.ccla.co.uk](http://www.ccla.co.uk)



**Please note that the content of this report should not be interpreted as investment advice.**

CCLA Investment Management Limited (registered in England No. 2183088 at 80 Cheapside, London EC2V 6DZ) is authorised and regulated by the Financial Services Authority and is the manager of the COIF Charity Funds (Registered Charity Nos. 218873, 803610, 1046249, 1093084, 1121433 and 1132054).