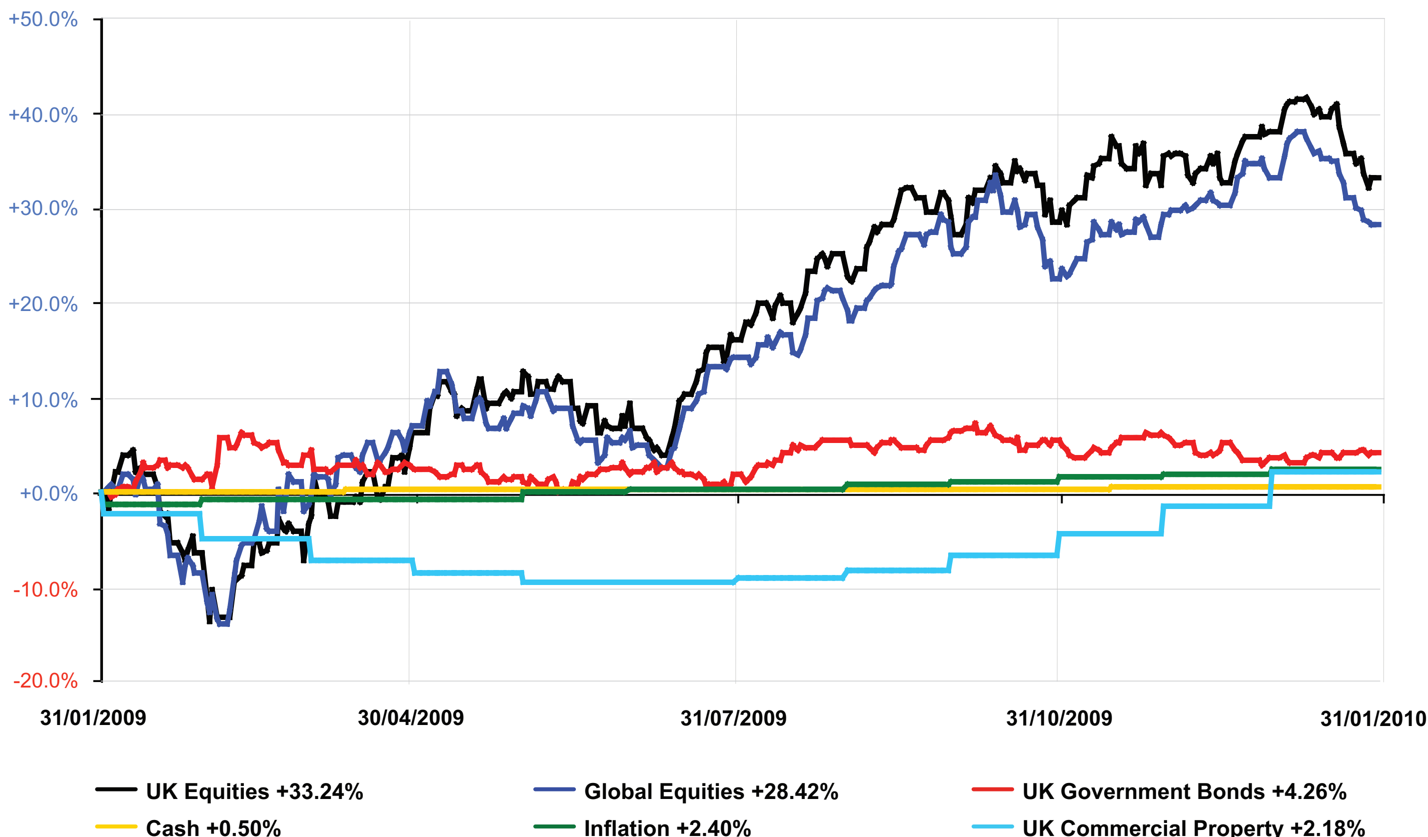
CCLA INVESTMENT MANAGEMENT LTD
MARKET REPORT JANUARY 2010

Summary

- Equity markets ease back over the month.
- Bonds remain steady, once again corporate bonds perform better than gilts.
- Property markets continue to make progress.
- Sterling loses ground against dollar and yen but improves relative to a weak euro.



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 a month to give a contemporaneous picture).

Review

Global equity markets lost ground in January. To a sterling based investor the FTSE All-World Index gave a total return of -3.54%, despite this reversal the return over the past 12 months remains strongly positive at +28.42%. The domestic equity market followed a very similar path and the FTSE All-Share Index recorded a return of -3.57%. Large companies were slightly weaker (-4.09%) but smaller companies performed much better and actually made positive progress over the period, the FTSE Small Capitalization Index returned +3.07%. The trend to lower values was mirrored in most major markets overseas. Europe recorded a decline of -5.77%, the USA -3.60% and Asia -5.26%. The market in Japan declined slightly in local terms but provided a positive outturn to UK based investors of +2.68% because of currency translation effects. Within Europe only two markets had returns in positive territory; Denmark, +4.59%; and Finland, +3.15%. The weakest performances came from three of the little 'PIGS' as the markets in Portugal (-9.46%); Greece (-10.18%) and Spain (-10.75%) fell more substantially.

In fixed income markets, government bonds stabilised after recent weakness. Support came from two sources, one specific the other more general. The specific point was that the PSBR for December was below forecasts, an outcome which raised hopes that government borrowings for the year might not be quite as high as feared. There was also general support from the more cautious view on prospective economic growth rates. Corporate bonds continued the trend of outperformance and once again it was the longer dated and lower rated bonds which were strongest. The rehabilitation of lower rated bonds over the past year has been such that returns have been stronger than those produced by many equity markets. In the year to January UK gilts have returned +4.26%, the iBoxx BBB Index +34.30%, the FTSE All-Share Index +33.24%.

Commercial property values continued to advance, the best sectors being retail warehouses, the best area central London, where there was evidence of rent increases, the first for three years. Improved valuations have helped free up liquidity in the market but transactional volumes remain low.

In currency markets sterling lost a little ground relative to the dollar (-1.14%) and more relative to the yen (-4.07%). It strengthened against a weakening euro (+2.28%).

The month brought news that the UK economy had finally limped out of recession during the fourth quarter, achieving a welcome but far from exhilarating estimated growth rate of 0.1%. This is below most forecasts and also below the rate of growth implied by a number of surveys and so there is a good chance that it will be revised up as more data becomes available, nevertheless it is clear that the upturn lacks vigour and is unlikely to match the pace of past recoveries. The government has maintained its forecast of +1% to +1.5% for 2010, this compares with growth in past recovery years of +2.6% in 1976, +2.1% in 1982 and +2.2% in 1993.

Inflation data was also released and here the data was above expectation as the CPI rose to +2.9% from +1.9% in November. Substantially the rise is an echo of the recession in that most of the 'gain' actually reflects lower prices and tax rates dropping out of the comparison rather than new, higher ones pushing in. Whatever the cause, these adverse comparisons will continue a little longer and it is likely inflation will rise over +3% in the months ahead.

The USA also published economic growth estimates for the fourth quarter but these were altogether more robust, with activity thought to have risen by +5.7% relative to quarter three. Within this the stock effect was the dominant contributor, last year companies were cutting stocks as fast as they could, this year they were not. Once these factors are removed growth is revealed as being much more modest but broadly sourced and with encouraging signs of consumer activity expanding again.

An important development over the month was evidence that the Chinese authorities were taking steps to prevent their economy from overheating. After fourth quarter GDP grew by 10.7% measures were put in place to restrict bank lending and nudge short term borrowing costs higher. In 2009 China just failed to overtake Japan as the second largest economy in the world, something it should achieve in the early months of the current year.

Outlook

Now that all the world's major economies are out of recession the focus has shifted to the upturn and how strong it might be. Recent evidence of indifferent growth in the UK and Europe and signs that China might be about to slow the pace of future expansion, caused concerns that the upturn - and as a consequence company profits - might be less strong than hoped. These doubts are reasonable but we should bear in mind that the in months following changes of economic trend there is often changeable and sometimes conflicting data and that it will be some time before the real shape of the uptrend is clear.

This is a background which will keep equity markets volatile but overall we expect further progress, not based on multiple expansion but rather on earnings growth. We expect yields to move higher in fixed income sectors sufficiently so to affect both gilts and corporate bonds. We expect further progress from property.

James Bevan
Chief Investment Officer CCLA

CCLA INVESTMENT MANAGEMENT LTD
80 Cheapside, London EC2V 6DZ

Client Service T: 0800 022 3505 F: 0844 561 5126
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).