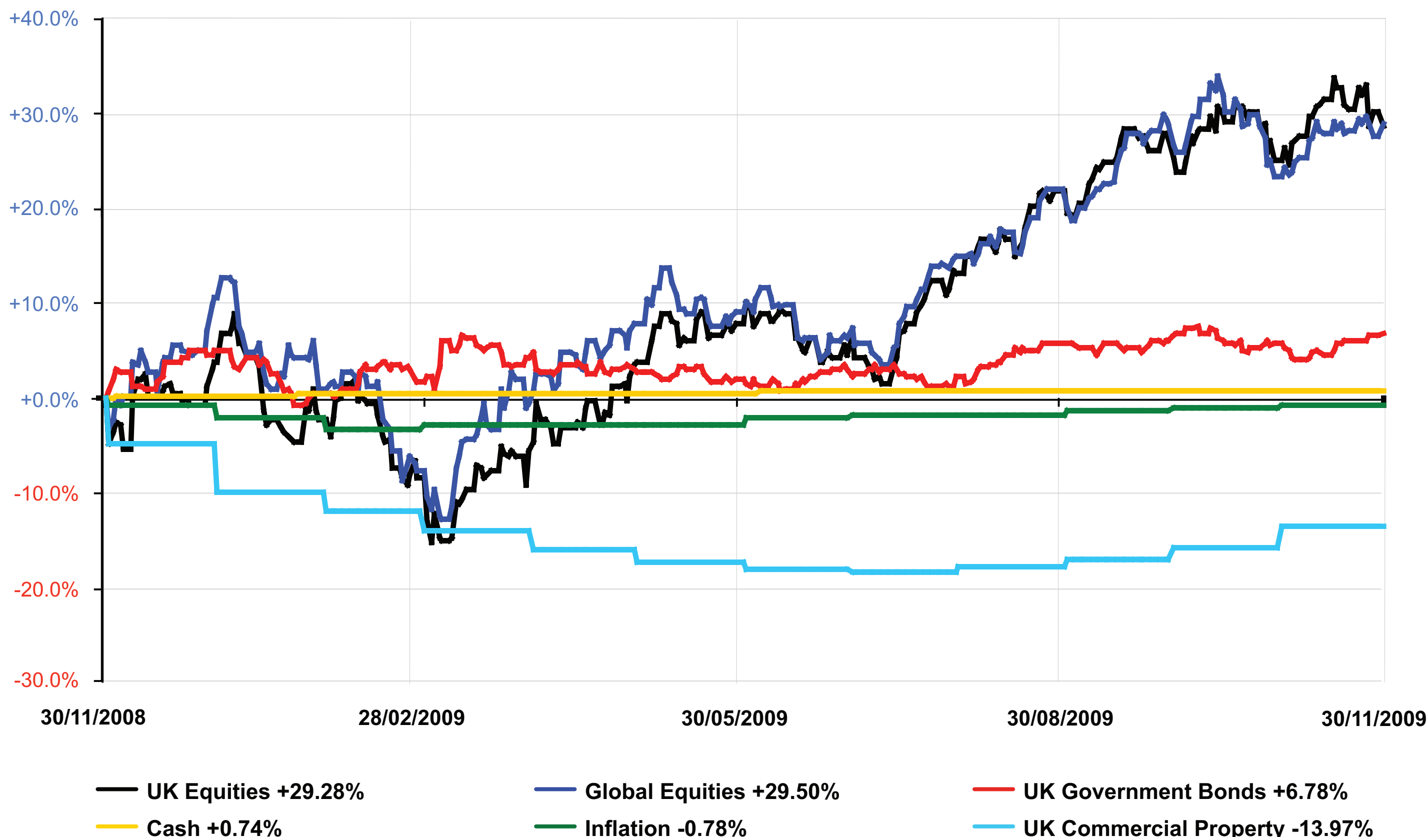
# CCLA INVESTMENT MANAGEMENT LTD
# MARKET REPORT NOVEMBER 2009

## Summary


- Equity markets have been volatile over the month but most end the period higher.
- Bond markets make progress.  Government stocks are steady, corporate bonds outperform slightly.
- The property market continues to move forward as buyer interest increases again.
- Sterling is steady against the dollar but loses ground against the euro and yen.


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

Most global equity markets advanced in November after easing back the previous month.

In sterling terms the FTSE All-World Index gave a return of +4.59%, taking the return for the year to +29.50%.  The domestic equity market made similar progress with the FTSE All-Share Index returning +2.96%.  Large companies performed slightly better than the market as a whole but small cap stocks fell, declining by -5.01%.  Most international markets gave similar returns.  In Europe the gain was +3.44%, the US returned +6.42% and Asia rose by 3.32%.  Japan bucked the positive trend and declined slightly, by – 0.54%, continuing a trend of relative weakness.  The three month return from this market is -6.14% with a gain of just + 6.29% over the past year.  The range of returns from individual markets was relatively narrow with most in positive territory.  The most noticeable exception was Greece, where concerns about the financial health of the nation saw the index decline by -16.04%.

Fixed income market returns were modest but uniformly positive.  UK government bonds returned +0.89% with the extended quantitative easing programme continuing to support prices.  Corporate bonds showed relative strength, closing the yield gap with gilts and supported by investors seeking to boost their income flows.  The longer dated and lower rated maturities were the strongest parts of the market, the iBoxx BBB Index returned +1.66% compared with +0.71% from the higher quality AAA rated segment of the market. Bonds with a remaining life of more than 10 years gave a return of +1.54%, short dated bonds +0.57%.

Commercial property values moved higher again, increasing the evidence that the long and severe bear market in the sector has ended.  Trading volumes in the sector are still modest, reflecting the reluctance of sellers to accept current price levels. Buyer interest however seems to be building, from both domestic and international investors.

Sterling was steady relative to the dollar, falling by - 0.07% over the month.  It weakened more substantially against both the euro and the yen, falling by -1.93% and -4.17% respectively.

Economic news continued to support the expectation of a gradual but not smooth improvement in activity levels.  In both Europe and the UK estimates of growth in the third quarter were revised, in Europe this confirmed that growth had returned, with output rising by +0.4%.  In the UK, the data revision produced an improved output estimate but, at -0.3%, one still lower than that of a year ago.  The UK is clearly a laggard amongst the major economies but there is a growing hope that although delayed, recovery will get underway in the final quarter of the year.  This is important from the standpoint of government finances which have continued to deteriorate at an alarming rate.

Squeezed between recession - hit tax revenues and increased spending on areas such as unemployment and measures designed to promote recovery, borrowings amounted to £11.4 billion in October.  This took the total for the year to £87 billion, as great in the first seven months of this financial year as in the whole of 2008/09.  UK inflation increased but not because of any substantial new cost pressures, instead the increase was due to the drop in fuel prices last autumn dropping out of the comparatives.  Inflation is likely to move higher in the next few months as imported costs, pushed higher by weak sterling, affect the statistics and as the temporary reduction in VAT ends.

An interesting event in the month was the decision by the Indian State Bank to diversify its international currency reserves by swapping $6.7 billion for gold.

There was good evidence that corporate markets were getting back to normal.  Lloyds Bank, keen to extract itself from the government support programme, launched the largest ever rights issue, intended to raise £13.5 billion of new capital. Elsewhere Kraft, the US based food company, launched a bid for Cadbury.  The bid has not been seen as generous by the market but it is sufficiently serious for the UK company to consider alternative ‘friendly’ mergers as a defensive strategy.

## Outlook

Governments are walking a narrow line with regard to their economic stimulus programmes.  They have to continue to reassure investors that conditions will be kept supportive as long as is necessary to ensure recovery takes hold, whilst at the same time promising lenders that prudent action will soon be taken to reduce debt levels.  At present the priority is growth, but this will not always be the case and at a point soon the authorities will signal that they have started the process of exiting the stimulus programmes. This will be a very important test for sentiment. We expect action to cut spending to come first, leaving interest rates low for some time yet.

Equity markets have risen to levels which reasonably reflect current prospects.  We expect further progress in time but the near term could see a phase of churn and consolidation until investors are comfortable that hopes of further recovery in 2010 will be met.

Property markets seem to be changing from bear to bull trend.  Investors understand the challenges the sector still has to face but take the view that these are adequately discounted in the handsome yields the sector has to offer.

We remain cautious of the fixed income sectors due to the potential for massively increased supplies of government stock to push yields higher and therefore prices down.  Corporate bonds offer some relative protection but will not be immune to a general shift upwards in market yields.

Sterling still has the potential to lose ground against the major currency groups.

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