

Global & UK economic outlook:
Implications for investors

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Outline: Tectonic shifts in the global economy



- Global recovery - from V-shaped to U shaped
- UK & European outlook
- Some trends reshaping the economic landscape
- Implications for investors

Going for a double dip?

Fears of a double dip increased over the summer



ECONOMIST ON HOLIDAY:
I went for a dip this morning.
A double dip is now a possibility.

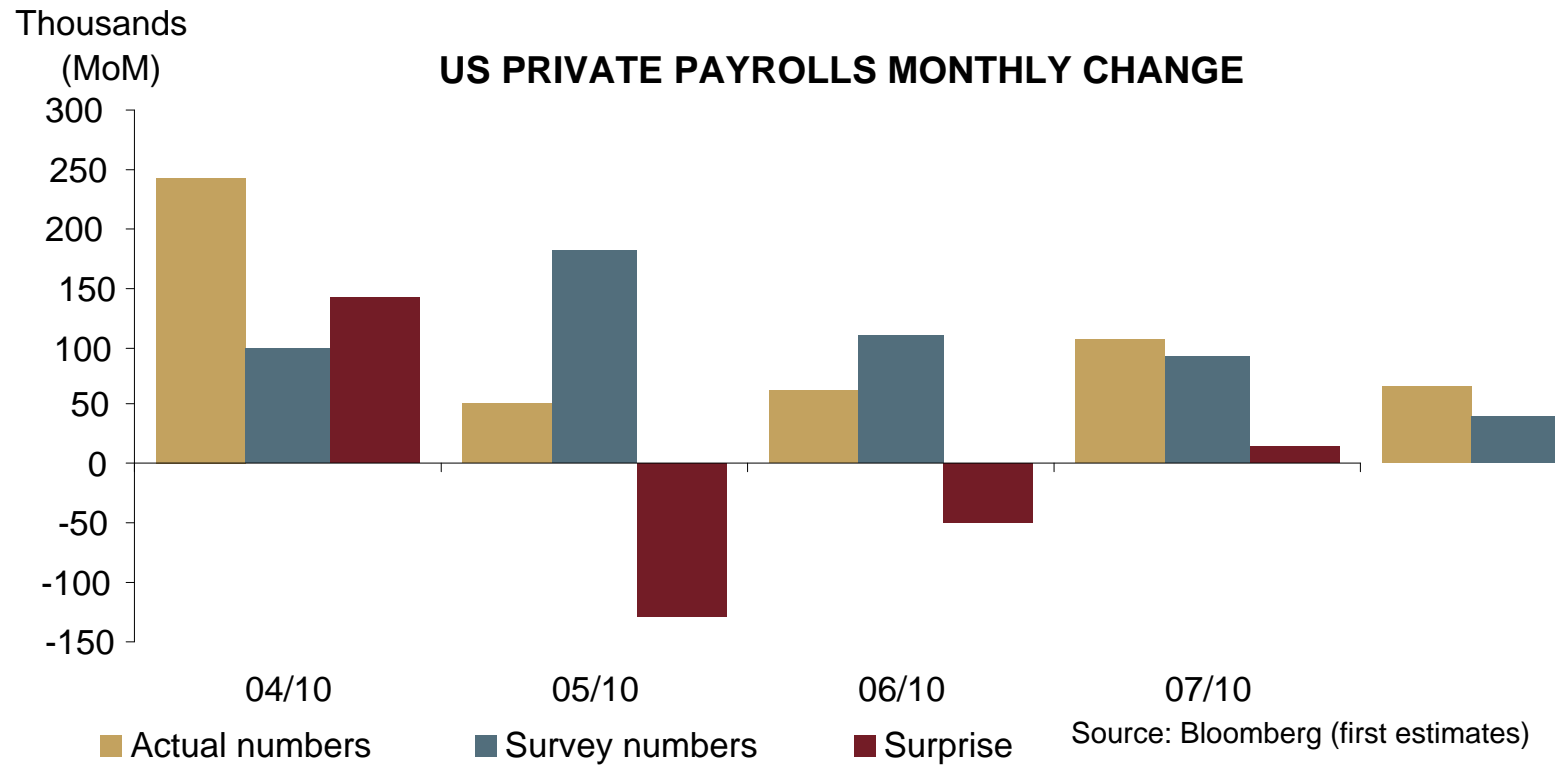
Source: Daily Telegraph



The recovery from the Great Recession was V-shaped, but is now slowing

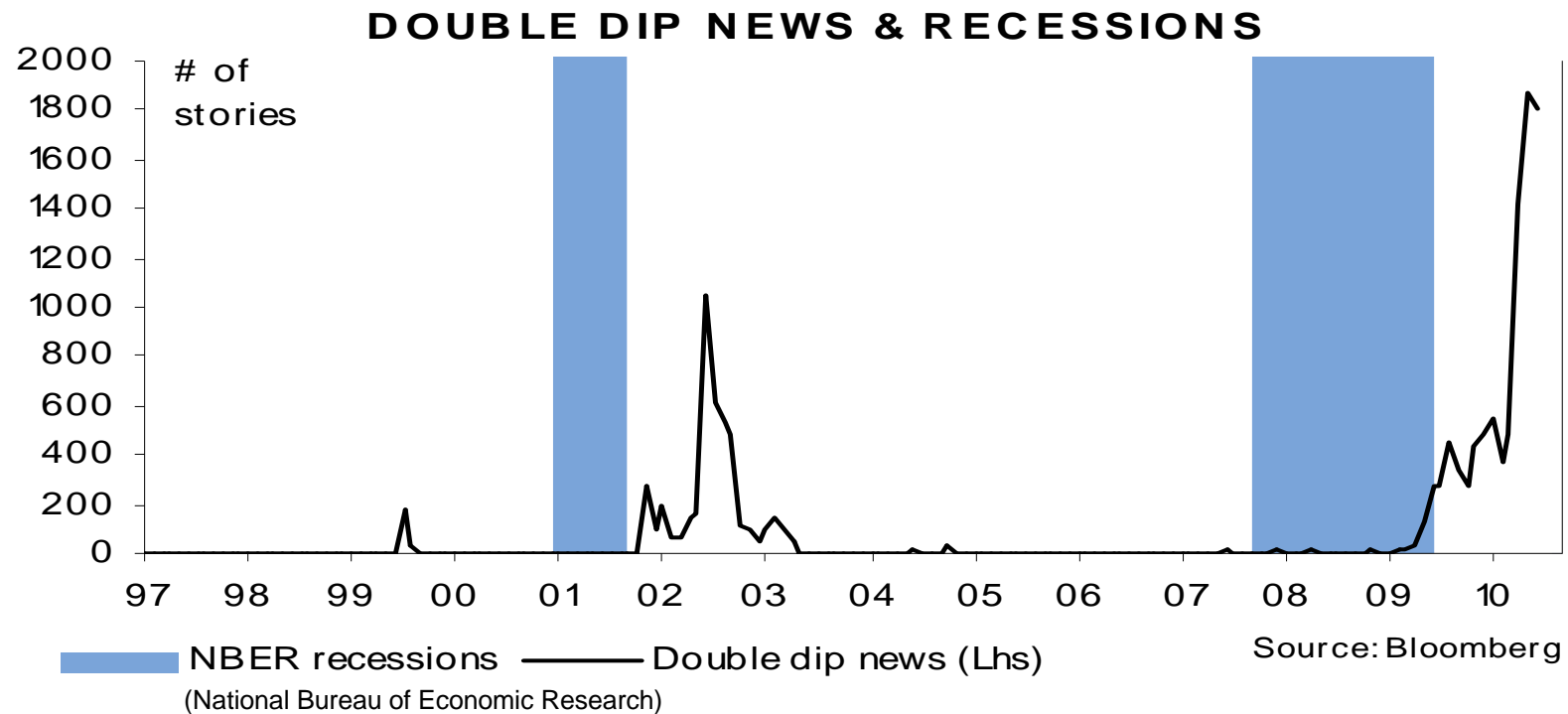


US labour market indicators and other macro data were disappointing over the summer

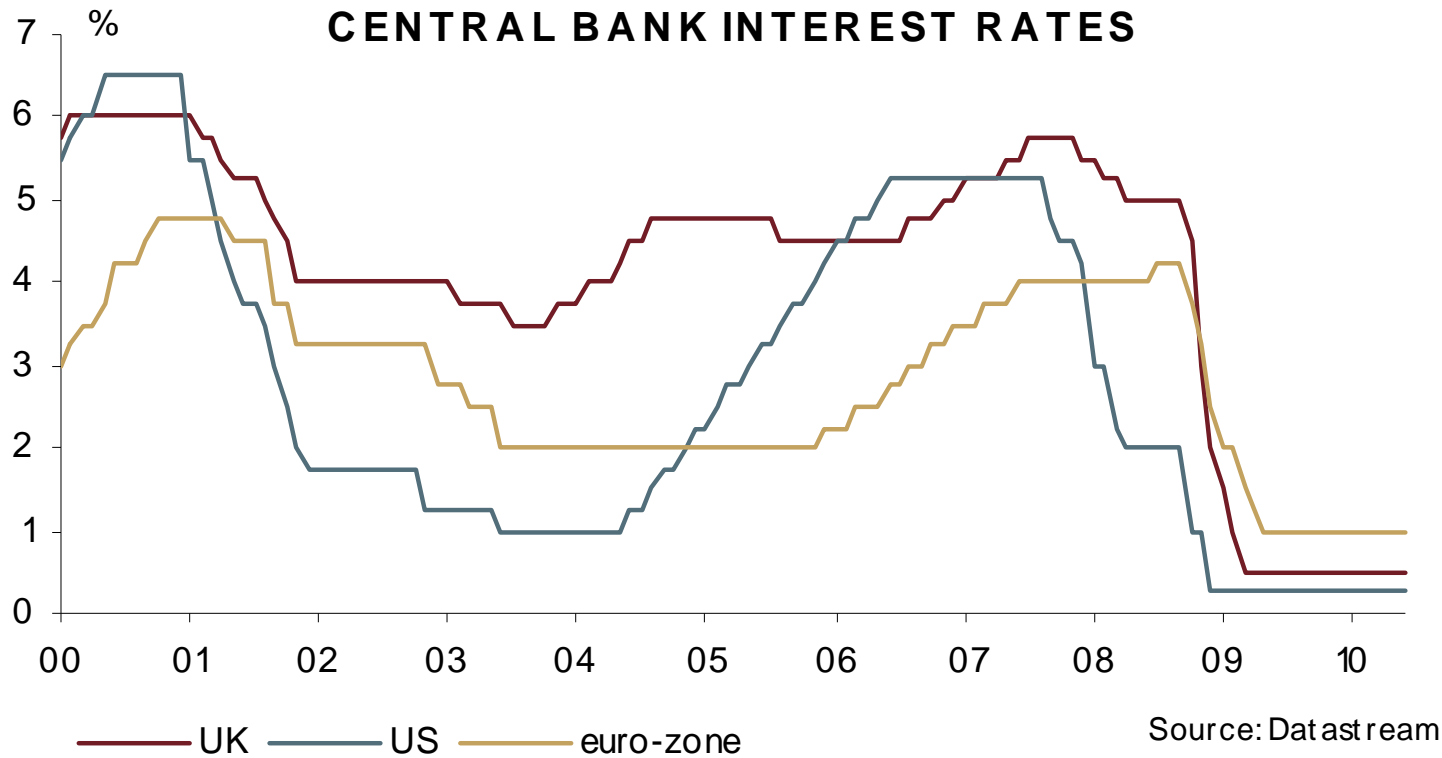


Going for a double dip?

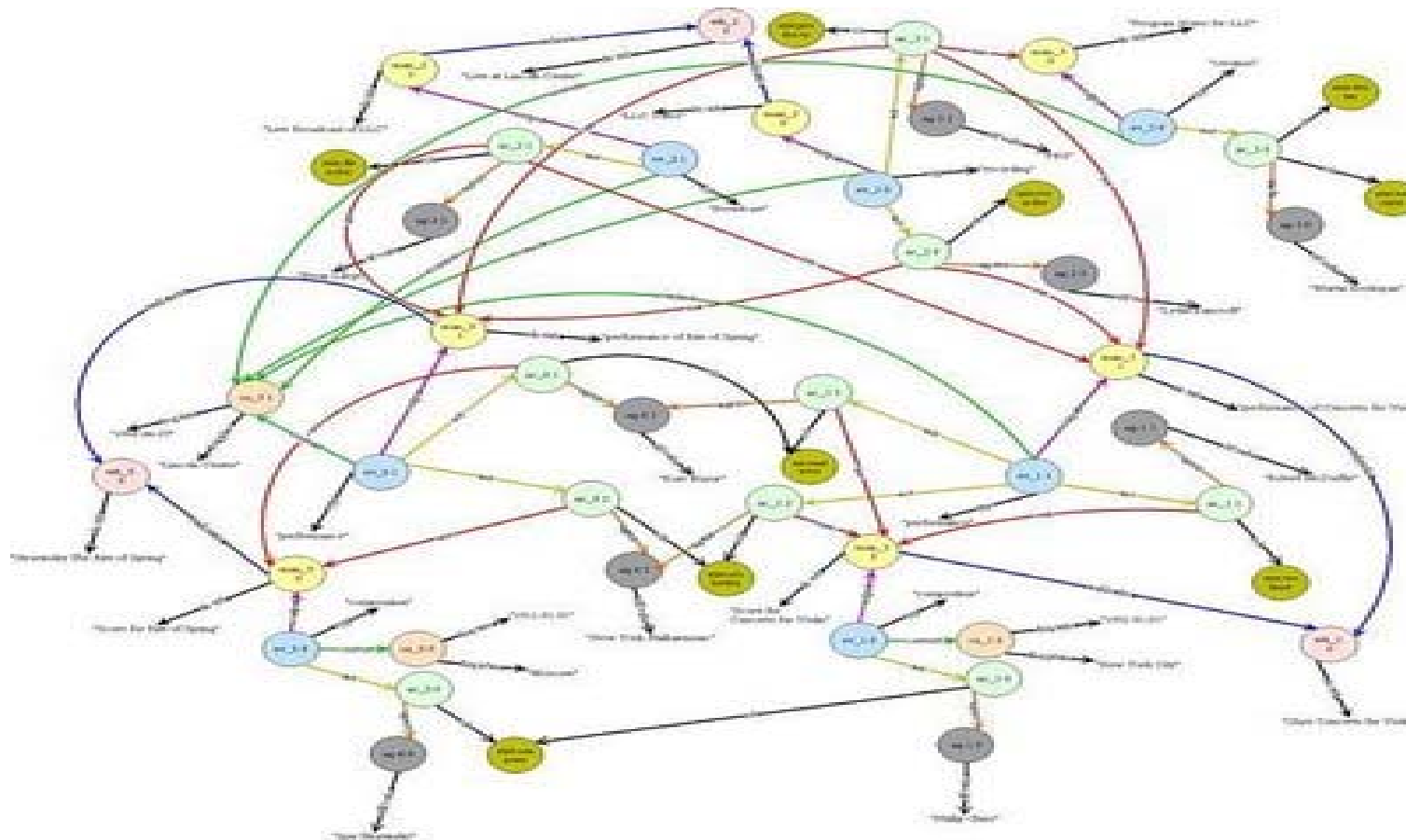
Fears of a double dip are normally high in a recovery



But policymakers have acted aggressively, and more Quantitative Easing (QE) is an option ...



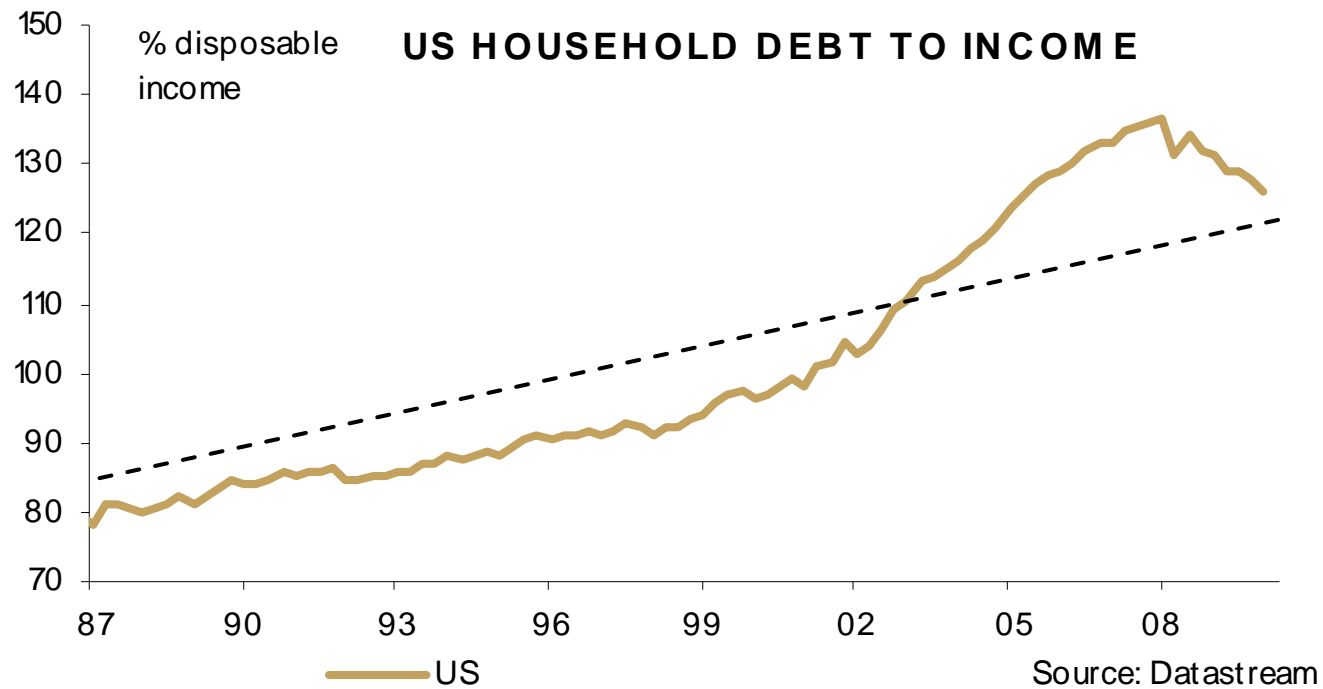
QE explained ...



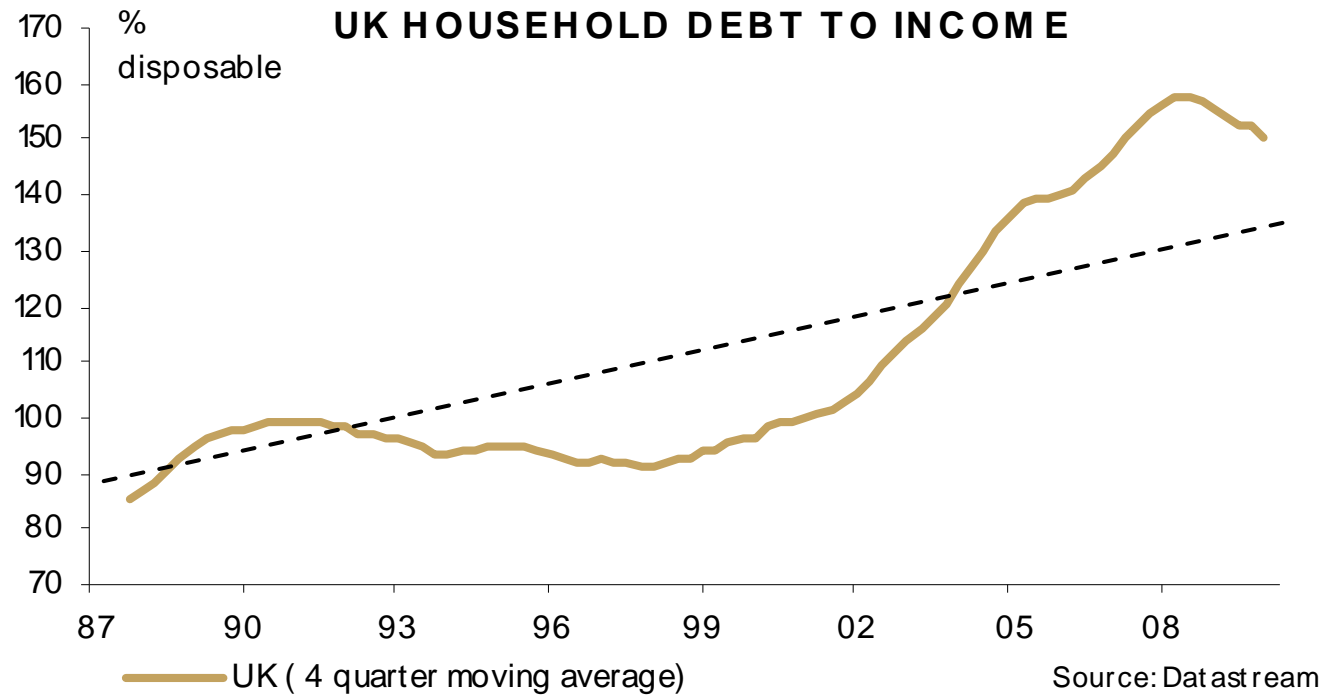
Source: RBS Group Economics



De-leveraging is a long-term theme



De-leveraging is a long-term theme ...

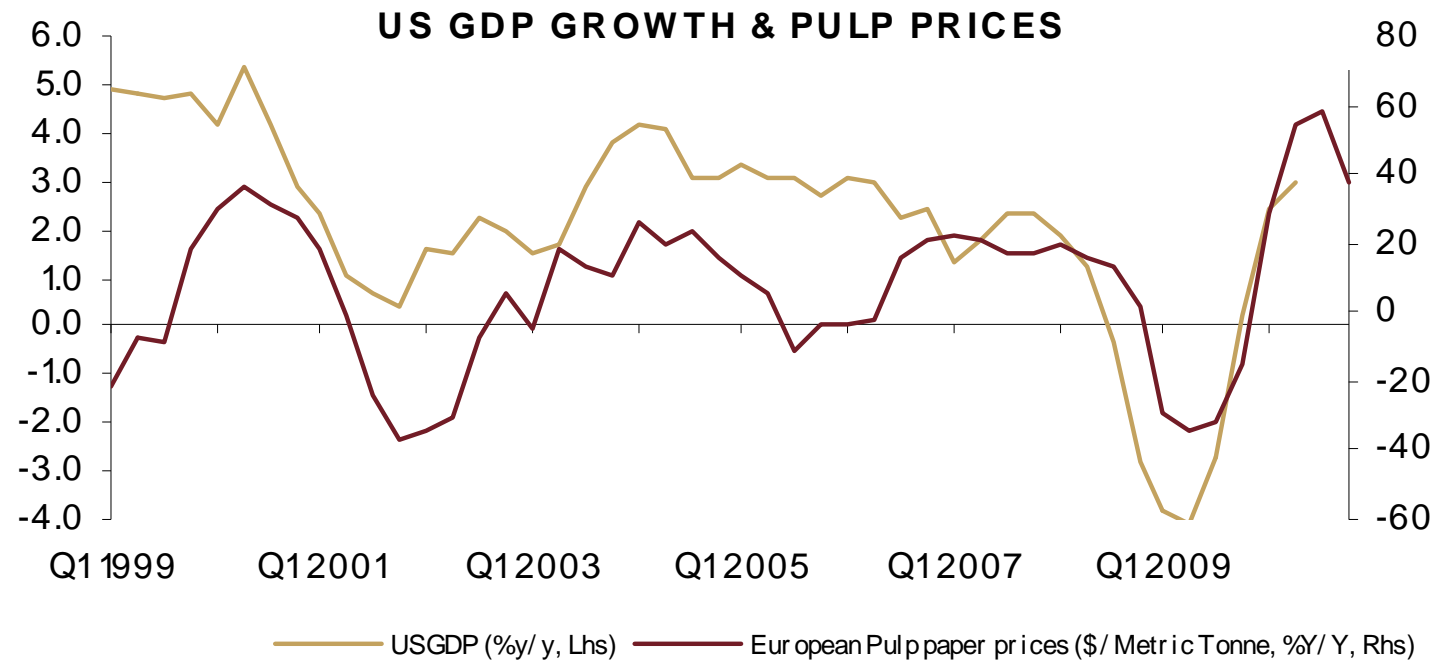


Summary US Economic Outlook



- The 'V'-shaped recovery is becoming 'U' shaped as the impact of stimulus measures fade
- But we think the economic recovery will continue, albeit slowly
- Uncertainty over the strength of the recovery will keep equity markets volatile
- But could create opportunities for long-term investors

Pulp prices are very sensitive to the economic cycle



Source: Datastream



UK Economic Outlook: The unavoidable Budget



Focus: eliminate the deficit

- Alistair Darling planned £73bn by 2014-15
- George Osborne added £40bn

How?

- Spending cuts, around 75%
- Tax rises, around 25%

Major changes

- VAT to 20% on 4 January
- Corporation Tax rate cut to 24% by 2014-15
- But investment allowances down too
- Welfare budget cuts of £11bn

Has it increased the risk of a 'double- dip' recession?



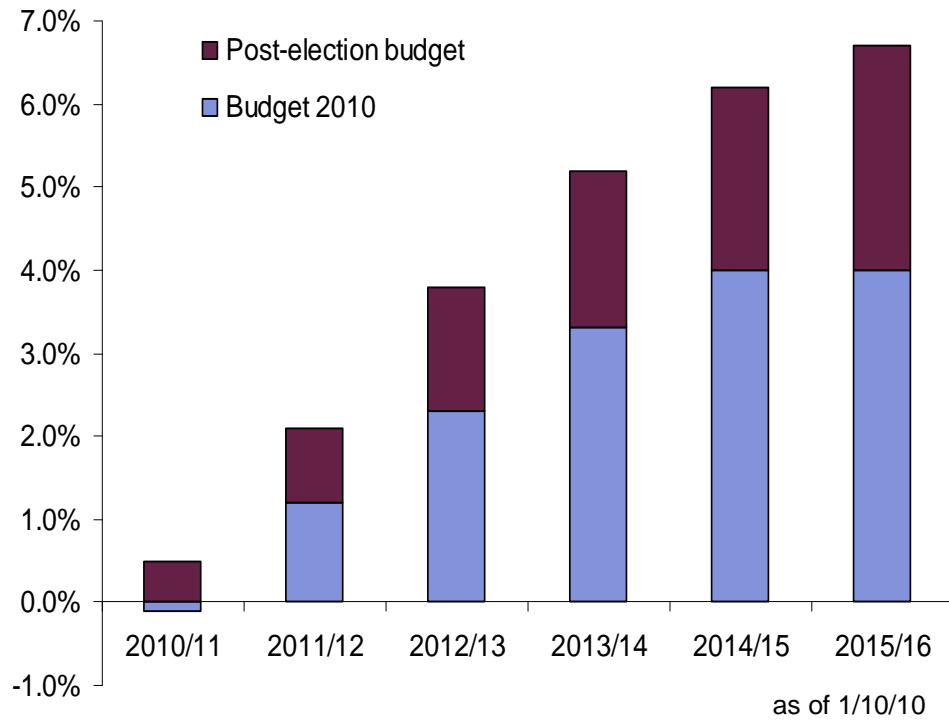
Source: Daily Telegraph



UK Government deleveraging too De-leveraging



Cumulative fiscal consolidation (%GDP)



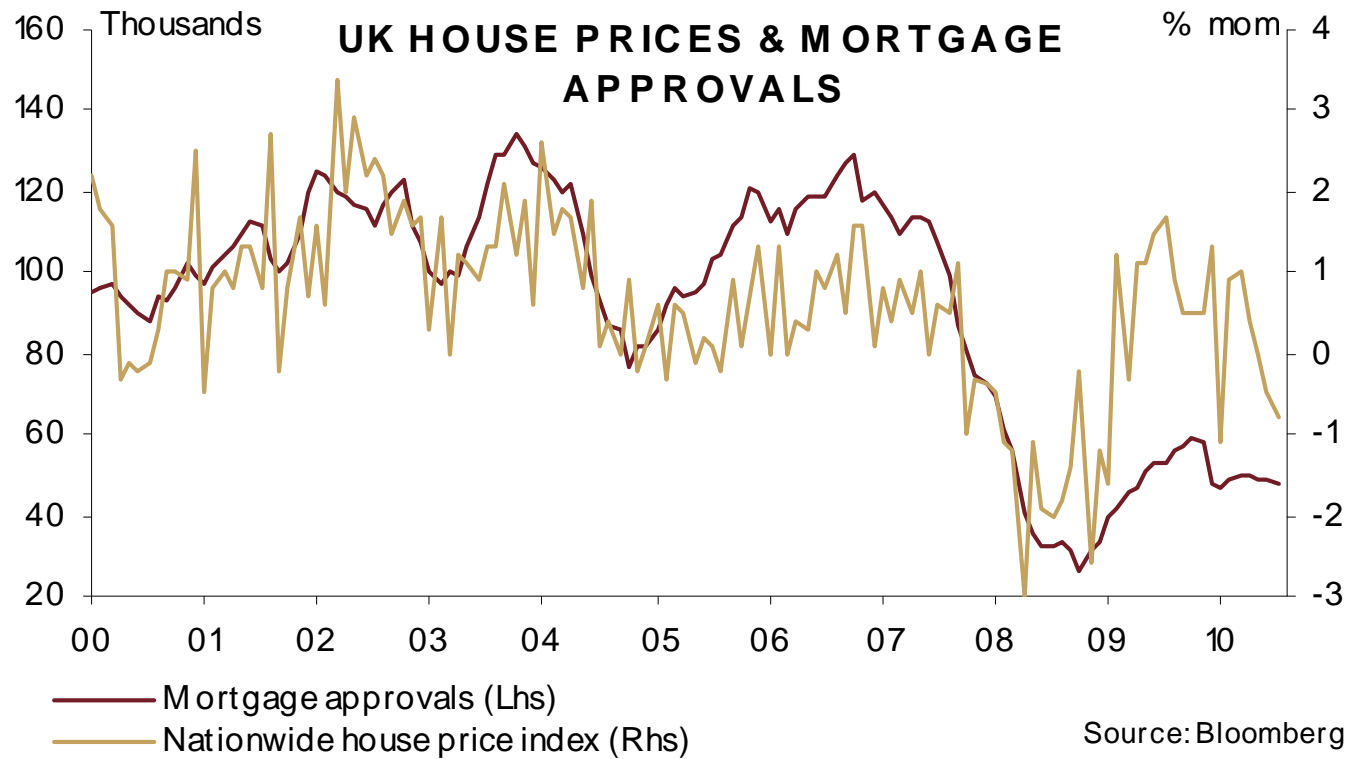
Source: Institute for Fiscal Studies, Coutts



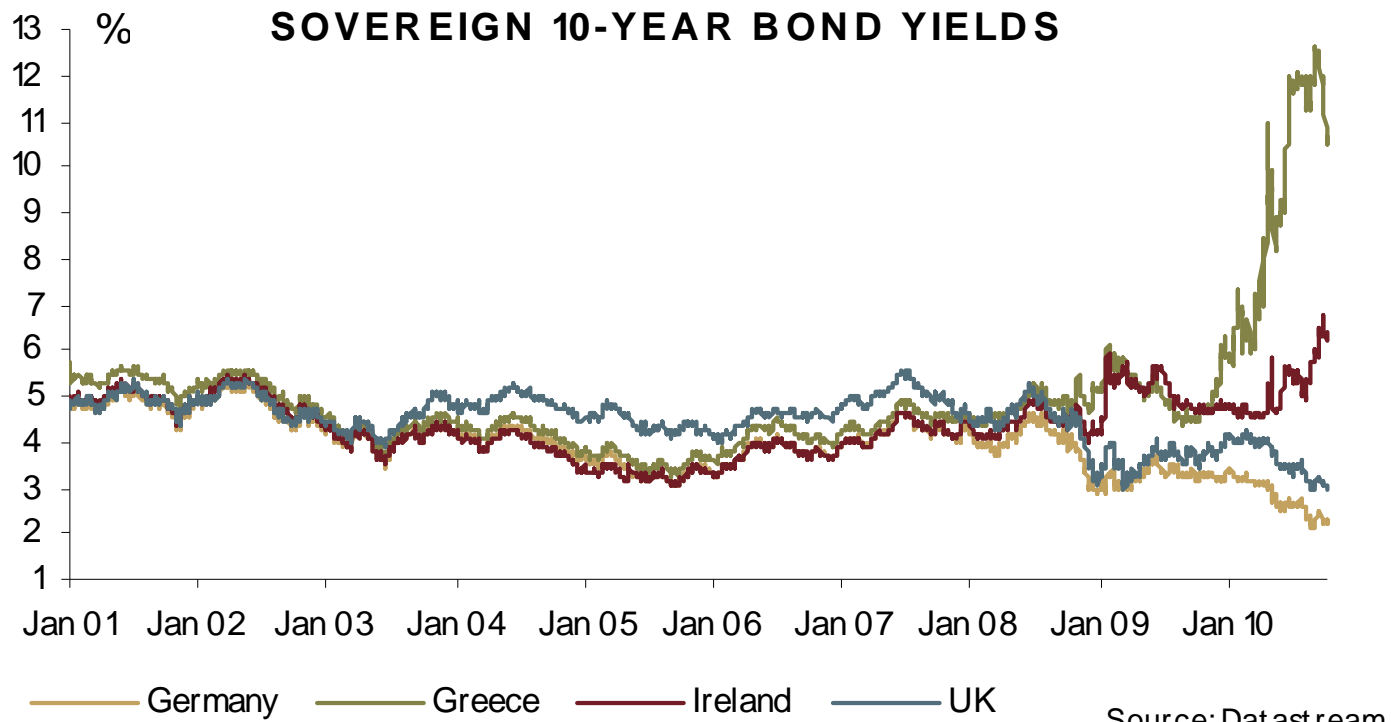
Source: Daily Telegraph



UK housing market vulnerable ...



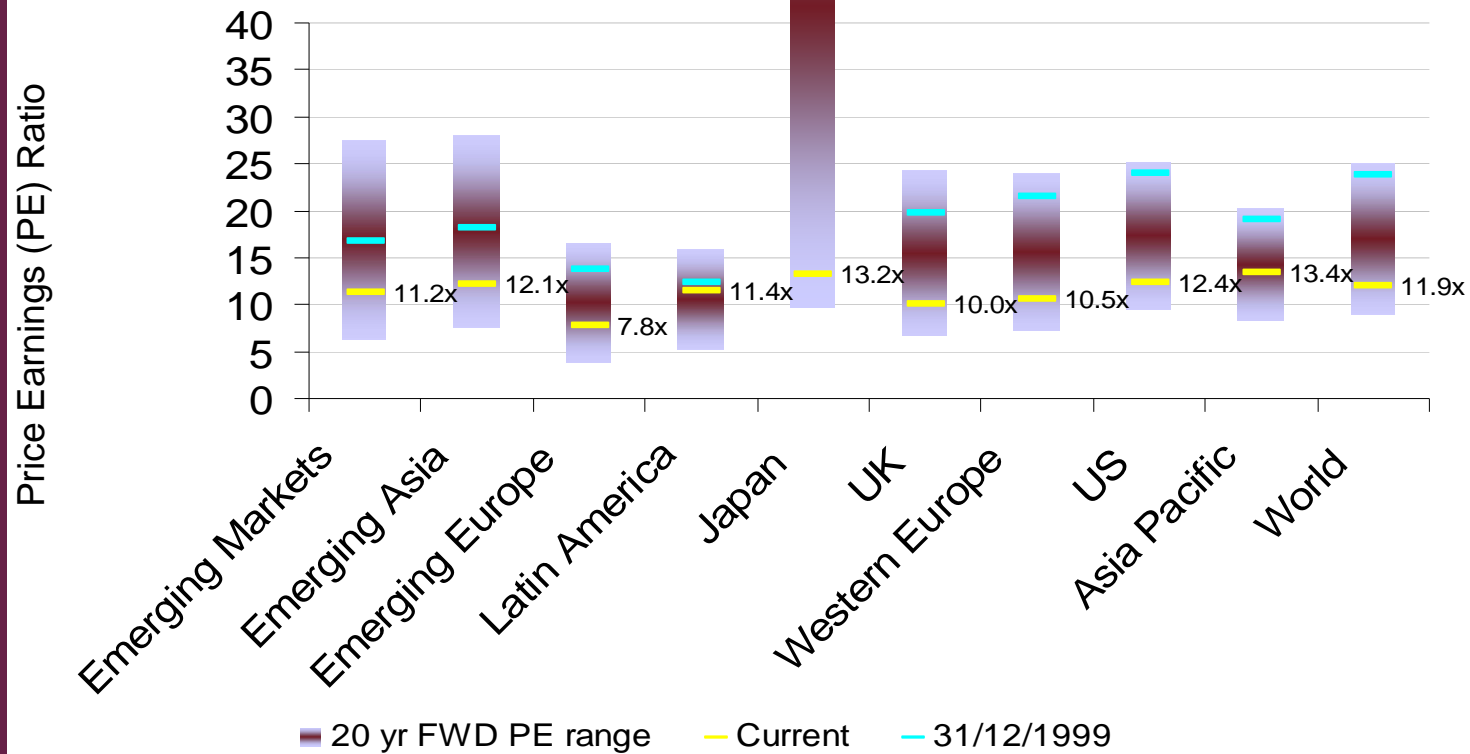
European Uncertainty





INVESTMENT OUTLOOK

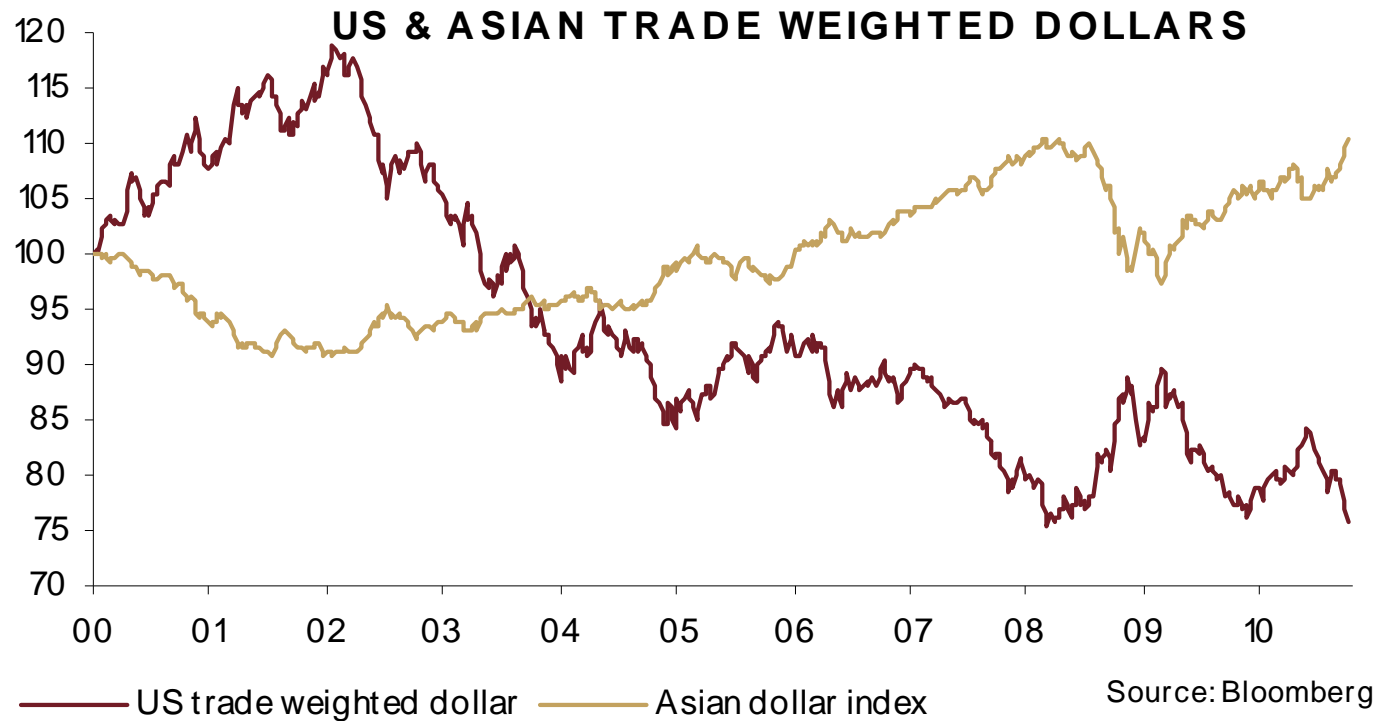
The price of the corporate sector is attractive



* 20 year forward PE ratio range
 Source: Datastream as at 7 October 2010



Emerging economies are the bright spot





EQUITIES

- **Developed-market** - An anaemic economic recovery, improved corporate earnings and attractive valuations point to low but positive returns over the next 12 months, accompanied by greater volatility.
- **Emerging-market** - Have come through the developed-economy-focused crisis of the past couple of years with their superior long-term return potential intact.

PROPERTY

- UK commercial property - In a low-rate environment the yield will draw investors in, but returns will be capped by a lack of lending to this sector.

Investment Outlook



FIXED INCOME

- **Government bonds** - Risk aversion and substantial spare capacity will push yields for 'safe-haven' governments down, while deficit worries will keep yields higher for the less fiscally fit.
- **Index-linked** - Looking expensive, although still offer a way of protecting against the tail risk that fiscal deficits are inflated away.
- **Emerging-market** - Offer higher yields with, in many cases, less fiscal risk than the major bond markets.
- **Investment-grade** - Expected to advance in a positive but sluggish growth environment, and as investors search for yield.
- **High-yield** - A more sluggish and uncertain recovery will result in increased volatility for high-yield bonds.



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Biography



Julien Seetharamdoo, Bond Strategist

As a bond strategist, Julien contributes to asset allocation decisions in fixed income markets. He also edits global investment publications on a weekly basis.

Prior to joining Coutts, Julien worked for RBS as a Senior Economics Advisor, initially covering the euro-zone and then the US. Previously, he worked as an International Economist at Capital Economics Ltd.

Julien holds a degree in Economics from the University of Cambridge. He also holds a Masters degree in International Trade and Finance and a Ph.D in Economics from Lancaster University's Management School.

