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## Investment Outlook

Edward Hocknell – Partner, Baillie Gifford

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OK, what about the investment outlook? We remain optimists. We think the data support pretty strong optimism about the state of the global economy and its likely rate of recovery. It might slow down in some places – after all, we’re past the first flush of recovery now in some countries – but there will be a pretty strong recovery for the next year or so. So, that’s good.

Stock markets in many cases are also reasonably good value because, after their first great flush of recovery last year, share prices have not gone up much recently, despite the fact that corporate earnings and cash flows have been very strong. So, markets are looking a bit better based than they were and we think that companies are in a good position to resume capital expenditure, which was interrupted last year in the financial crisis. And that will lead to better figures in employment in due course. We think at the moment people are being too pessimistic and trying to put as gloomy a tint to all the new data that comes out as they possibly can. I think there is scope for people to get a bit more cheerful as this year goes on.

The other thing, of course, that’s happening is that there’s much more talk of austerity, particularly in Europe. There will be cutbacks but the other side of the coin will be continued loose monetary policy. And, of course, the US itself, the world’s biggest economy, isn’t going to do very much in the way of austerity, at least for the next couple of years. So, the combination of loose monetary and fiscal policy in the US, loose monetary policy in Europe, with a bit of austerity, is enough, I think, to keep recovery going and keep stock markets fairly buoyant.

One of the things that has been exercising us a bit recently is the resurgence in some quarters of the pessimism about the immediate outlook for China. Generally speaking, this has been voiced by people who have not historically been great China experts and in some cases haven't actually been there. But it does seem to have become quite an influential point of view floating round at the moment. The main point that people make is that the Chinese may well have over-invested in the short term, particularly in infrastructure and real estate. This is bound, so they say, to lead to disappointment – an inability to repay debts, consequent defaults to the banks and maybe some sort of deflationary bursting of a bubble in the next year or so.

We think this is just completely wrong and it's a theory I think which arises from an analogy to what has happened in Japan in the 80s and onwards. We think that's completely wrong. China is at a much earlier stage of its development than Japan, it still has a huge chunk of its population, over a third, working in agriculture, the use of steel per person in much of the country remains very, very low by international standards, the infrastructure is terrible and there is still scope to upgrade it enormously, particularly roads between major cities in the interior of China. This is a country where car usage is virtually doubling on an annual basis and so it's hard to see that you can easily make too many roads in that sort of environment. We think that the use of infrastructure will mean that it's extremely productive. This is not the sort of roads to nowhere syndrome that we once saw in Japan, and also that the Chinese have the resources to do this. They have the savings, they have the reserves and, at an individual consumer level, a high level of savings. People actually have to put down large deposits on some of these expensive flats and apartments they are buying. So, we think actually personal finance is not nearly as precarious as many people expect.

We expect China to continue to grow strongly for the foreseeable future and indeed that it's at a very early stage of its development. It may well be that infrastructure is going to be diluted as a source of growth as other things take over – domestic demand, for example. But, nevertheless, growth will remain pretty strong. So, we are pretty clear that a lot of the doubters about China have got it wrong.

And so, finally, we remain optimistic for the reasons I've given. We think that many companies in the west are going to benefit from their increased access to more and more customers, as the world develops and the world becomes more wealthy. The main thing that we worry about in the short term is that excessive austerity in parts of Europe could derail the recovery in those countries. But given the generally favourable global background, we think, even if people are too austere in places like the UK or Spain or Germany or wherever, that's not enough to really derail the whole thing. So, on the whole, we remain fairly optimistic. Thanks.

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