



BREWIN DOLPHIN

Market Strategy

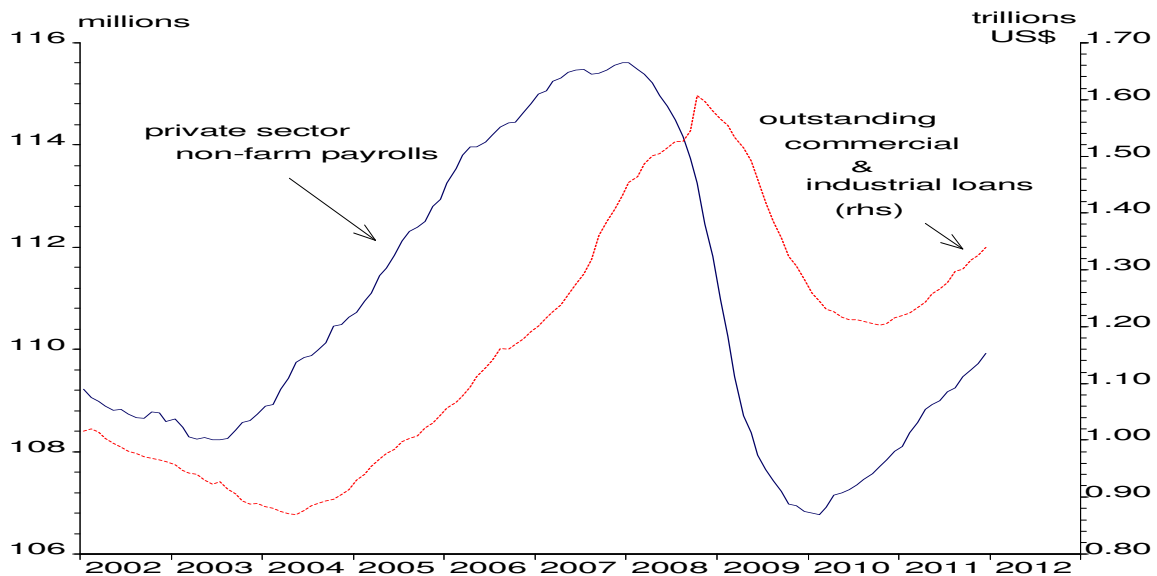
Mike Lenhoff – Chief Strategist

Tel: 0845 213 3360; e-mail: mike.lenhoff@brewin.co.uk

INVESTMENT RESEARCH

19 January 2012

Bad news - have equity markets had their fill of it?



Source: DATASTREAM

Brazil has just cut interest rates for the fourth time since last August. Its central bank rate is now 200bps lower than it was then and there remains plenty of scope for further reductions. China is easing too. It has yet to cut interest rates but it has started lowering reserve requirement ratios and announced overnight that it is allowing the big banks to raise lending quotas with the instruction to front load lending in the first and second quarters of this year.

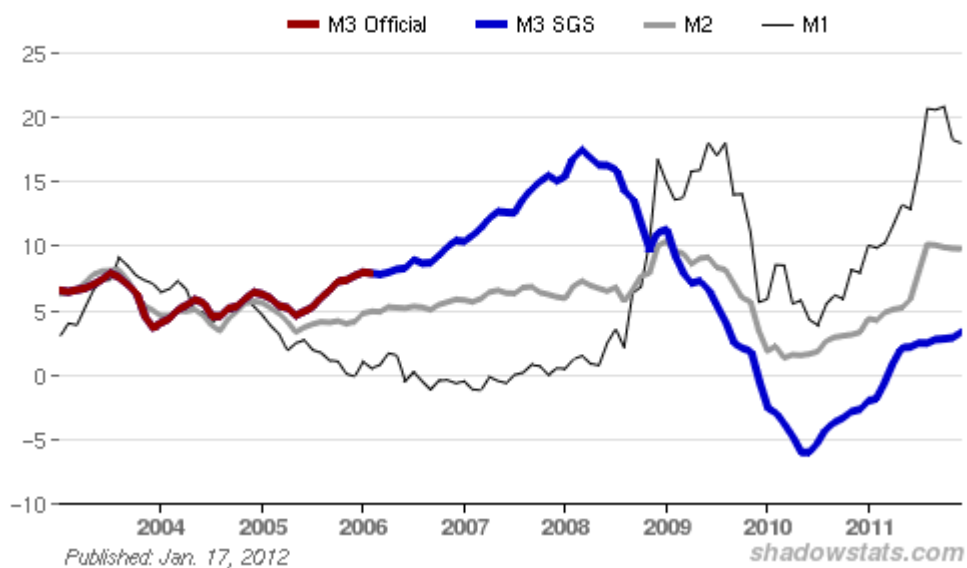
Meanwhile, as the emerging world loses momentum, the US economy continues to regain it. Not only is the economic news flow better than expected but there is evidence that the Fed's policy easing and especially its QE initiatives may be reaching the non-bank economy. As the chart shows, it is not just the underlying trend in private sector employment that is continuing to improve but so is the underlying trend for outstanding commercial and industrial loans. Also, although the Fed no longer publishes the broader monetary aggregate M3, a shadow series for this aggregate from Shadow Government Statistics is reproduced in the following chart and indicates, albeit tentatively, that the trend could be about to turn upwards again.

Elsewhere, as in the eurozone, progress towards resolving the debt crisis remains frustratingly slow. Also, the process is still nothing less than convoluted. All that is far from helpful for an economy now set for a three-quarter length recession according to consensus forecasts.

It may be touch and go as to whether Greece defaults 'orderly' or 'disorderly'. But the word now is that all the effort behind the negotiations underway to resolve the terms of a bond swap with Greece's creditors is aimed at avoiding the latter. Also, a 'final' draft of the Intergovernmental Treaty that eurozone leaders are expected to sign on March 1 is supposed to be ready for the next EU summit at the end of this month, when leaders will also be discussing jobs and growth.

Annual U.S. Money Supply Growth - SGS Continuation

Yr/Yr % Change by Month through Dec. 2011 (FRB, SGS)



Bringing it all together, there is something constructive about all of this for markets. In the developing world central bank policy is refocusing on growth to arrest the loss of momentum. In the US, the recovery is progressing slowly but surely. Moreover, Fed policy is aimed at sustaining the recovery. For the eurozone, March could still bring a better tone to market sentiment on the basis of the formal framework that could be in place for an eventual resolution to the sovereign debt crisis.

This morning's auctions might be a good example of this sentiment. Spain sold a total of 6.6 billion euros of four, seven and ten-year debt, which was more than had been indicated initially.

Indeed, for Wall Street, the sentiment has changed. The S&P 500 has the look of an index with its sights on taking out its 2011 high, though perhaps not be immediately. The index is now a little overbought and is also likely to run up against resistance at current levels. However, if the earnings prove to be at least as good as expected, to repeat the comment in our last note, Wall Street can be expected to lead equity markets up.

However, if sentiment is really changing, the acid test should lie with the higher beta sectors of the equity market such as the mid-caps. In the UK, the second liners have begun the year with more energy than the large-caps. All we need to see now is something similar from emerging markets.

IMPORTANT NOTES

The information contained in this report represents an impartial assessment of the value or prospects of the subject matter. Graphs, performance data etc are as at the close of business on the day preceding the date of the note. The information contained in this report has been taken from sources disclosed in this presentation and is believed to be reliable and accurate but, without further investigation, cannot be warranted as to accuracy or completeness. The opinions expressed in this document are not the views held throughout Brewin Dolphin Ltd. No Director, representative or employee of Brewin Dolphin Ltd. accepts liability for any direct or consequential loss arising from the use of this document or its contents. We or a our website at www.brewindolphin.co.uk. The value of your investment or any income from it may fall and you may get back less than you invested. Past performance is not a guide to future performance. If you are in any doubt concerning the suitability of these investments for your portfolio you should seek the advice of a qualified investment adviser. Brewin Dolphin Ltd, a member of the London Stock Exchange, authorised and regulated by the Financial Services Authority. Registered office: 12 Smithfield Street London EC1A 9BD. Registered in England and Wales no 2135876.