Macro Roundup

QUOTEDDATA

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A collation of recent insights on markets and economies taken from the comments made by Chairmen and investment managers of investment companies – have a read and make your own mind up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

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Global economy (*compare global funds here*)

Somehow there is never a shortage of things to worry about. If it isn't the implosion of the Euro and possible Greek exit from it, it is civil war in both Iraq and Ukraine. I fear that without such worries there would be no possibility of positive surprises in markets. In the meantime, equity market investors have to grapple with a basic problem that the valuation of many equities has risen considerably without commensurate overall improvement in corporate profits. To put this in perspective, looking at yearly average values, corporate earnings in the UK have barely grown at all over the last five years whereas share prices, represented by the FTSE All-Share Index, have grown by more than 50%. The global picture is similar; earnings of the MSCI World Index constituents have grown by little more than 10%, on average, whereas the Index has increased by over 50% (in sterling terms). While the overall economic conditions of very easy monetary policy and tight fiscal policy are very helpful for securities markets, equity markets, at least, badly need a stronger rise in profits to make much more progress.

Despite this rather downbeat view of markets we believe that this period of rather sluggish growth with low inflation is likely to continue. *Patrick Gifford, Chairman, Invesco Perpetual Select Trust*

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Financial markets are likely to remain hostage to the perceived momentum of global economic recovery and the implications this has for future corporate profit and dividend growth. Powerful economic forces of exceptionally low interest rates, a general lack of pricing power for corporates, and unsustainable debt levels cannot be ignored. Add to this the failure of unorthodox monetary policies convincingly to stimulate economic activity plus on-going negative real-returns from savings, and it becomes crystal clear just how distorted the prevailing economic environment has become. Those expecting economic normality are likely to be disappointed. For corporate management, a relatively opaque economic outlook with fiercely competitive downward pressure on selling prices suggests the struggle to deliver top line growth will continue. Protecting margins remains of prime importance but, with diminishing marginal benefits from cost cutting now apparent, companies need to explore new avenues for growth. At some point the reluctance to invest capital to expand must succumb to the necessity for growth. Unfashionable as it may be, we believe the best opportunities to satisfy the Company's investment objective are still to be found outwith developed markets. *Kevin Carter, Chairman, Murray international*

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The outlook for economic growth is improving but the good news is unevenly distributed. The UK and the US appear most clearly set on a recovery path and emerging economies, including China, are beginning to benefit from this, after a number of years when their export markets were weak. It is not yet clear how far Japan's recovery, which has been stronger than expected over the past year, has been set back by the rise in taxes, although early signs are encouraging. European growth remains fragile, despite the looser monetary policy recently adopted by the European Central Bank. The current conflict in Ukraine adds an unpredictable factor, given concerns over a possible Russian threat to Ukraine's borders and the risk of consequent economic sanctions, including potential disruption of Russian energy supplies to Europe.

Currencies have been a complicating factor, in that the US dollar has been surprisingly weak, despite the US's relative economic resilience. A strong pound is a potential headwind for the UK, obstructing a rebalancing of the economy from consumption towards exports, while European politicians have been complaining about the strength of the Euro. Markets appear to believe that the US will continue to operate a looser monetary policy than its competitors, as it has since 2009. It is possible, however, that US policy is close to a turning point, if signs of more robust employment growth and a pick-up in inflation persist. The US dollar may surprise on the upside, if its interest rate cycle turns up, although this has been forecast for several years and been deferred so often that markets have stopped believing in it.

The timing of the first interest rate rise appears less important than the gradient of the climb. Even central banks contemplating rate increases emphasise the likely slow pace of tightening while Europe and Japan remain in an easing phase. If the early stages of the forthcoming rate cycle may be characterised as reducing pressure on the accelerator more than touching the brakes then growth is unlikely to judder to a halt as a result of monetary policy.

Equities have been calm on the surface this year, although sector performance has been changeable as investors booked gains on 2013's winners (particularly mid-cap and smaller companies) and sought value in areas that had lagged. The mild euphoria at the end of 2013 has dissipated, while earnings reports and economic growth have improved the fundamental foundations for equities. Hopes for renewed gains depend upon confirmation that economic growth (and further growth in company profits) is set to be sustained into 2015. Whilst this appears probable, there is less of a safety margin from valuations, which generally appear full rather than cheap. The need for selectivity, finding undervalued growth, is greater in the wake of the general rise in stock market indices in recent years. As for government bonds, in many economies they yield less than forecast inflation rates. This apparent lack of value has been ignored in recent years but, at some stage, interest rates and inflation expectations will rise, undermining the optimistic assumptions built into such low bond yields. Governments may have a vested interest in keeping their borrowing costs low but value conscious investors should assess carefully whether such low yields offer them an adequate return. *Harry Henderson, Chairman, Witan Investment Trust*

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Given current stock market valuations, further market appreciation will continue to be influenced by central bank policy of creating money and maintaining low interest rates. We have become uncomfortable in participating in liquidity fuelled markets and are sceptical as to whether the current degree of investor complacency can be maintained. We continue to search assiduously for investment opportunities that are likely to benefit from structural tailwinds at attractive valuations and which are not conditional on short-term monetary policies. The search however has become increasingly challenging. Almost every asset class is highly priced by historical standards at a time when the precarious geo-political situation in the Middle East and Russia could undermine the fragile economic recovery which central bank policy has helped to bring about. *Lord Rothschild, Chairman, RIT Capital*

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Share prices have increased substantially since the depth of the financial crisis in early 2009 and corporate profits have recovered strongly, as have the valuations placed on those profits. Equities have benefitted from the policy of central banks to keep interest rates low. It is anticipated that in due course, interest rates will be raised to more normal levels, although any increases are likely to be introduced very slowly for fear of stifling economic growth. Share prices are now at levels where they are more vulnerable to external shocks, although there is still room for them to move higher. We continue to be optimistic on the outlook for equities, but believe there will be increasing need for caution if valuations rise further. *Teddy Tulloch, Chairman, EP Global Opportunities*

UK (*compare UK equity funds here*)

2014 to date has seen the UK equity market struggle to find a convincing direction. Despite the well-publicised improvements in economic growth in the UK and US economies, the current valuation of the market represents a level that reflects this optimism, but which may struggle to be maintained if the pace of earnings growth does not accelerate. Meanwhile, the outlook is likely to remain challenging for the foreseeable future due to a combination of elevated valuations and an environment of continued flat corporate profit growth. The other significant reasons for caution over the near term are the impact of a reduction in the scale of asset purchases under the policy of quantitative easing in the US, uncertainty about the strength of economic growth in the developing world, especially China, and a heightened level of political risk both in a domestic context ahead of the UK General Election and internationally due to the Ukrainian/Russian situation and Iraq. It is unlikely that the last two years' market performance will be repeated in the coming year.

Despite these concerns, there remain some pockets of value within the UK equity market. The key to navigating the near term is to remain highly vigilant about the strength of corporate performance and to remain judicious in portfolio selection. The Portfolio's strategy remains largely unchanged from the recent past, with a strong preference for companies that have proven ability to grow revenues, profits and free cash flow in this low growth world, coupled with management teams that are fully cognisant of the need to deliver sustainable, long term, dividend growth. It is this type of investment opportunity that forms the majority of the portfolio and that we believe offers the potential to deliver good risk adjusted returns over the long term. *Mark Barnett, Portfolio Manager, Invesco Perpetual Select Trust – UK Equity Portfolio*

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The MPC is showing willingness to keep interest rates low and inflationary pressures are low at present in the UK economy. However, given the strength of the economic recovery in recent quarters and the evidence from business sentiment and employment data for further growth in coming quarters, the market is now expecting that interest rates will start to rise within the next 12 months. We agree that such a move is likely in this timeframe, but continue to envisage only modest tightening. *Stuart Edwards, Portfolio Manager, Invesco Perpetual Select Trust – Managed Liquidity Portfolio*

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Equity markets have enjoyed a very substantial rise since the launch of the Company, in large part due to expansive central bank policies, perhaps, rather more than the prospects for promising economic growth. The US has started to reduce its Quantitative Easing ("QE") programme and other central banks are likely to follow. With economic growth remaining anaemic, the environment for corporate earnings growth remains challenging. *Michael Wrobel, Chairman, The Diverse Income Trust*

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The global economic recovery remains on track for low but slow growth. However markets fell in July on the back of geopolitical concerns, notably heightened unrest in Gaza and the implementation of sanctions by the US and Europe targeting key elements of the Russian economy. Economic data in Europe remains disappointing and appears to be stabilising in China, while in the US, the Federal Reserve is scheduled to end its QE `taper' this year. In the UK, the economy continues to progress with broad based positive growth, though some investors are uncertain whether the recovery is sustainable enough to withstand an increase in interest rates. The US and the UK are therefore closer to entering a monetary tightening phase which, while usually constructive for equities historically, should also result in increasing volatility for the asset class. In such a world of low but acceptable growth, investors should become increasingly discerning and companies that can deliver higher quality growth will be most in demand. *Howard Myles, Chairman, BlackRock Hedge Selector*

Equity markets have performed strongly over the last year. The global macro-economic environment has been getting gradually better with world GDP forecast to show faster growth in both 2014 and 2015. This is being driven mostly from developed rather than emerging economies. The UK economy has seen a strong recovery with a number of upgrades to economic growth over the last year. There has been a noticeable improvement in the housing market, with a rise in prices and transaction levels, aided by low interest rates and Government initiatives. The unemployment rate has fallen and there are signs that wage inflation is starting to rise, albeit modestly. All these factors are boosting consumer confidence. With the UK economy strengthening, the focus has now shifted as to the likely timing of an interest rate rise. Guidance on this matter from the Bank of England has fluctuated over the past few months but the consensus view is that we can expect the first move in late 2014 or early 2015. However, as it currently stands, rates are expected to rise slowly and to levels well below historic norms which should allow the nascent UK economic recovery to continue.

After the rise in the past few years, stock market valuations are now back to long-run historic averages. Corporate profitability has proved robust but has not shown much growth in recent years. It is difficult to see the market making material progress from current levels without an increase in corporate earnings. However, given an improving economic backdrop we are hopeful that the outlook for corporate profitability is improving somewhat. Mergers and acquisition activity is currently subdued as management teams are unwilling to take on financial leverage in the face of perceived economic uncertainty. An increase in M&A would be helpful for smaller companies in particular as mergers and acquisition activity tends to be focused in this area. *Neil Hermon, Manager, Henderson Smaller Companies*

UK Property (*compare UK property funds here*)

In every region we are seeing improving occupational and investment markets albeit to differing extents and from different starting points. Recently, some commentators have questioned the sustainability of current investment yields in various property sectors. Whilst it may be true that in some areas of property, until rental growth is established, scope for further yield compression may be limited, [*however for*] regional light industrial properties the fundamental dynamics of the regional light industrial sector are that rents and values are still below those necessary for replacement of the stock. This should ensure a favourable supply/demand equation until values and rents rise.

The current interest rate environment is extraordinary. Sterling Libor can currently be fixed for ten years at less than 2.5% per annum. The ten year rate for Euribor is less than 1.2% per annum. Furthermore, whilst over the last few years super low interest rates were, to some extent, an irrelevance since there was little availability of debt and where it was available margins were high now both debt and equity is available for sound propositions and margins for bank lending appear to have normalised. Such a backdrop to the operation of a high yielding property business is outside the experience of most people working today but the likelihood must be that it will provide scope for continued value growth.

Investment market conditions have undoubtedly become more competitive as investors begin to recognise that regional industrial property is likely to produce superior returns in the medium term. *James Hambro, Chairman, Hansteen Holdings*

UK commercial property is expected to remain in favour with a wide range of investors. The further globalisation of property is likely to continue to attract overseas buyers to the UK while funds seeking long term security of income via long leases are also expected to remain active in the market. With a shortage of stock and low yields in London and for prime property, more investors may look to the outer areas of London and the regions.

The Managers believe that interest rate rises will be relatively modest and take place within the context of a growing economy where capacity constraints will act to support the occupational market and property performance. This bodes well for future performance of the sector. *Chris Russell, Chairman, F&C Commercial Property Trust*

Europe (*compare European equity funds here*)

European smaller companies have performed extremely well since Mario Draghi pledged to save the Euro. We have seen a re-rating of the asset class from extremely cheap levels to more reasonable valuation levels, but we have seen no corresponding improvement in profits. It seems sensible to believe that further upside from here will depend on companies delivering profits. A normal economic cycle would see improving credit conditions, leading to improved leading indicators such as consumer confidence and purchasing managers' indices, and then economic growth should follow. Despite all the distractions this has essentially been what has happened in Europe albeit at an extremely slow pace. There is a danger though that expectations from certain areas of the market have moved ahead of economic reality. Indeed while the leading indicators are still in positive territory, they have softened more recently. We think therefore that the risks and rewards are more balanced than they have been at any point since the depths of the crisis. Risky assets such as southern European cyclicals are no longer cheap, indeed there are no obvious areas of value in the market and there is less distinction between quality assets and everything else. Our stock research from here is likely to take place in the quality areas of the market and we think it is these areas that can deliver the profit growth and move the market forward. *Sam Cosh, manager, European Assets Trust*

European Property (*compare European property funds here*)

While the Eurozone economy should grow at a moderate1-1.5% through 2014-2015, faster growth in the USA and UK is boosting exports and households' real disposable income as employment grows, inflation slows and governments call a halt on new austerity measures. In addition, the upturn in business confidence should encourage companies to rebuild stocks and raise investment as the threat of a currency break up recedes. While there are concerns about deflation in the Eurozone, there is no evidence that purchases are being postponed in anticipation of lower prices.

Transaction volumes in the property investment market have been increasing, however demand remains focussed on the lower risk end of the market. Spain has begun to attract large amounts of international capital however this too is rather polarised towards certain parts of the market. *Schroder Property Investment Management, managers of European Real Estate Investment Trust*

USA (*compare North American equity funds here*)

I have been saying for a while that the US corporate sector is reasonably robust and the US economy is growing. The US stock markets have risen a long way and valuations are no longer cheap. After some concern last year, markets seem to be more sanguine about the tapering of quantitative easing. So far they have also taken in their stride the severe geopolitical tensions in the Ukraine and the tragedy of the Middle East. The magic carpet on which markets are floating may well hit some turbulence over the next few months, but trying to time such setbacks is difficult. Over the longer term, the US corporate sector seems relatively well placed. *Sarah Bates, Chairman of JPMorgan American*

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We continue to believe that US stocks are a reasonable investment, with the remarkable strength in corporate profits and continuing attractive valuations compared to bonds, there is evidence to support this constructive view.

On profits, expectations for 2014 are holding firm at an 8% gain and, longer term, we believe that the current level of profitability is sustainable for years to come. At the time of writing this statement, the second quarter earnings season is about to begin and operating earnings for the S&P 500 are expected to set a new quarterly record. If current estimates hold, trailing 12-month operating earnings will have grown 12.5% compared to the same 12-month period a year ago.

In that context, a price of around 16x forward earnings seems fair to the market, although more demanding than the valuations prevailing over most of the last five years. The most attractive aspect of the market is still the comparison with current interest rates and bond yields. As well as companies borrowing to buy back stock, this gap is now also being arbitraged with a higher level merger and acquisition activity. This trend looks likely to continue.

Of course, there are potential risks to our outlook. Given May's higher than expected inflation readings, many investors fear the Fed could raise interest rates earlier than expected. While Fed Chair Janet Yellen talked down these concerns, continued strength in economic data and corresponding higher bond yields could reignite them. With control of the US Congress unclear and mid-term elections a few months away, policy risk could reappear as a source of volatility. In fact, more volatility is a certainty at some point. However, we do not believe it will bring an end to the current cycle of profits growth, nor seriously undermine the case for equity investing.

With expectations that the Fed's short-term interest rates are likely to remain on hold until mid-2015, economic growth gradually improving, and continued growth in corporate profits, we believe the fundamentals are supportive for US equity markets in the near-term. *Garret Fish, manager, JPMorgan American*

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US small cap is, by its very nature, a volatile asset class and although the primary concern for investors should be domestic economic recovery, sell-offs in these stocks are just as likely to come from outside concerns such as events that are unfolding in the Middle East or eastern Europe. Longer term the US economy has demonstrated its ability to create exciting growth prospects in the small cap sector. *Davina Walter, Chairman, JPMorgan US Smaller Companies Trust*

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We continue to believe that US stocks are a reasonable investment, with strength in corporate profits, a low rate environment, and a sustainable economic expansion in the US, the main supports for keeping a constructive view. On profits, expectations for 2014 are holding firm at an 15% gain for the Russell 2000, though we think that level of profitability is probably a little on the high side. At the time of writing this letter, the second quarter earnings season has just begun and we believe small caps will need to deliver on their earnings expectations this quarter if the rally is to continue. Additionally, the current valuation of around 21x forward earnings for the Russell 2000 Index seems slightly elevated relative to historical norms.

Of course, there are potential risks to our outlook. Given May's higher than expected inflation readings, many investors fear the Fed could raise interest rates earlier than expected. While Fed Chair Janet Yellen talked down those concerns, continued strength in economic data and corresponding higher bond yields could reignite them. Meanwhile, with control of the US Congress uncertain and mid-term elections a few months away, policy risk could reappear as a source of volatility. In fact, more volatility is a certainty at some point; however we don't believe it will bring an end to the current cycle of profits growth nor seriously undermine the case for equity investing.

With expectations that the Fed's short-term interest rates are likely to remain on hold until mid-2015, economic growth gradually improving, and continued growth in corporate profits, we believe the near-term fundamentals for US equity markets are somewhat supportive. *Don San Jose, manager, JPMorgan US Smaller Companies Trust*

Canada (*compare North American equity funds here*)

We remain constructive on the outlook for the Canadian economy, which we believe is underpinned by strong positive fundamentals. It is our view that global economic growth is accelerating, led by the expansion of developed economies such as the U.S., the U.K. and continental Europe. Our expectation with respect to Europe has been for a moderate but sustained expansion over the next several years. We expect growth will continue to broaden with consumption and investment increasing, which, in turn, should decrease the dependence of the Eurozone recovery on international markets. In the U.S., the deleveraging drag is waning and evidence of continued economic growth is emerging, such as strong payroll gains, labour market improvements, a rise in auto sales and housing starts and a notable increase in household net worth. We believe these positive global economic trends will support demand for Canadian exports and help sustain Canadian economic growth over the coming months. *Middlefield Limited as managers of Middlefield Canadian Income*

Asia (*compare Asian equity funds here*)

Easy monetary conditions have supported stock markets, while many developing economies continue to adjust to the consequences of the US Fed's tapering. In China, recent economic data point to a stabilisation of growth. The new reform agenda provides further grounds for optimism. Although the transition away from an export to a domestic demand-led economy could take some time and may slow growth as a result, this would lead to greater economic resilience over the longer term.

That said, markets could face a few headwinds in the months ahead. A key worry is the prospect of higher interest rates. A premature rate hike, particularly by the Fed, would be unsettling. Global economic growth is still uneven, despite early indications of a recovery. Territorial disputes between China and its neighbours, Western sanctions on Russia over its involvement in Ukraine as well as the on-going tensions in the Middle East could also test markets if relations deteriorate. Caution is merited in view of these uncertainties, while earnings growth could remain muted. But your Company's holdings, with their prudent management, sound financial health, strong operating cash flow and decent dividend policies, should be able to weather these headwinds and continue tapping the region's growth potential over the long term *Peter Arthur, Chairman, Aberdeen Asian Income Fund*

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Despite continued tapering by the US Federal Reserve, unrest in the Middle East and Eastern Europe, Asia continued to show positive growth. In July, the Asian Development Bank ("ADB") maintained its 2014 growth forecast for Developing Asia at 6.2%, which is a slight improvement from 2013's GDP growth of 6.1%. The ADB also maintained its expectation for growth in Developing Asia to accelerate to 6.4% in 2015.

There are a number of risks to current economic conditions. The tapering program in the US, economic sanctions on Russia and conflicts in the Middle-East could lead to volatility in energy prices and interest rates that may impact growth expectations for Asia in the short-to-medium term. In addition, the rapid credit expansion in Asia due to accommodative policies over the past few years has eased. Although this will affect domestic demand, rising incomes in the region should partially offset this impact. *Pierangelo Bottinelli, Chairman, Symphony International Holdings Limited*

Russia and Russian property market (*compare European property funds here*)

Macroeconomic environment:

The first half of 2014 has been a challenging period due to a combination of events including targeted sanctions, the continuing conflict in Ukraine and further unrest in Syria. Following real GDP growth of 0.8% during the first quarter of 2014, growth of 0.5% is forecast for the full year 2014. Despite this sentiment, however, construction activity is close to record levels due to a peak in the development cycle which remains unaffected by macroeconomic trends.

Positive factors include the absence of a seasonal decline in oil prices, stabilisation of the rouble exchange rate, low unemployment levels, continuing growth in industrial sectors and improvement in the consumer confidence index.

Moscow office market:

Despite new office construction in Q2 2014 recording the highest increase in the last four years, demand reacted to geopolitical events with the Moscow office market experiencing unusually low quarterly take-up. The area inside the Third Transport Ring (TTR) accounted for the highest level of take-up while the area beyond the TTR accounted for the highest level of new supply.

Driven by the considerable volume of new supply, the overall vacancy rate increased to 14.8%, from 13.9% in the previous quarter. Despite the negative political landscape in Russia, there has been no significant change in the average asking rental rates compared to Q1 2014.

The geopolitical situation in Russia remains uncertain, making it increasingly difficult to forecast market activity for 2015. Nevertheless, another 670,000 sq. m. of new office space is expected to be delivered in H2, resulting in total office stock in Moscow reaching 16.8 million sq. m. by the end of 2014.

Moscow Retail Property Market:

The volume of new construction in the Russian retail space remained strong during the period with 18 new shopping centres opening in Russia during H1 2014. In total, approximately 50 shopping centres are expected to be delivered in 2014. Stock per 1,000 inhabitants totalled 327 sq. m during the period but remained modest in comparison with the rest of Europe (Warsaw 690 sq. m, Paris 660 sq. m), though the anticipated high level of completions in 2014 will bring Moscow closer to the levels of St. Petersburg at 400 sq. m stock per inhabitant.

Vacancy rates at retail shopping malls are expected to increase further by the end of 2014 due to the high level of completions and large average area of new shopping centres. Despite the current economic situation, however, retailer demand has remained relatively strong with existing retailers looking to expand and experiment with new format types and 16 new brands opening their first stores in the region during the first six months of 2014.

Moscow and Moscow Region Residential Property Market:

The residential market has proven resilient in the face of a slowing economy with apartment sales increasing in response to geopolitical developments, as investors chose residential real estate as their safe haven given the high level of uncertainty regarding Russian securities and rouble stability. Despite a reduction in activity levels during the second quarter, which is seasonally weaker compared to the first three months of the year, underlying demand remains strong. As such, prices for residential real estate are expected to remain stable or show a slight increase in the short-term.

Lev Leviev, Chairman, and Mark Grosyman, Exec Director, AFI Development

Mining and Resources sector (*compare Commodity and Natural Resources funds here*)

There is further evidence that global growth is improving. Europe appears to have joined the US on the path to economic recovery, albeit on a more fragile-footing, and Asian markets have recently been strengthening on signs of improving economic stability. In stark contrast to the past decade, when the race for growth saw poor operating and capital discipline, the mining industry is becoming increasingly cost conscious. This more rigorous focus is translating into rising free cash flows and the potential for capital returns to shareholders. Unfortunately, the appreciation of sterling has and looks set to continue to act as a headwind for income generation from our predominantly US dollar denominated portfolio.

With mining companies trading on undemanding valuations and attractive dividend yields we expect 2014 to be a year of transition and are optimistic about the mining sector in the longer term. *AW Lea, Chairman, BlackRock World Mining*

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Whilst concerns about world growth remain ever present, we are cautiously optimistic that the bottom of the cycle might well be behind us.

At the end of last year we highlighted that the potential combination of a less risky macro environment, combined with the positive steps that the companies were taking to improve returns to shareholders, might turn the tide in favour of the sector. To date this process has worked well despite the "recovery" being still nascent in absolute terms.

The strengthening of sterling is likely to act as a headwind to our otherwise more optimistic outlook.

For the second half of the year it is essential that management teams of major mining companies deliver on the capital management commitments made to shareholders during the last 18 months. In order for this to be achieved, commodity prices will need to at least remain range bound and this is in turn dependent upon the world economy continuing to grind higher. Beyond the end of 2014 commodity fundamentals start to become very supportive for nickel, copper and even zinc. *Evy Hambro and Catherine Raw, managers of BlackRock World Mining*

The cut-backs in mining capex are now being thought of as a positive, not only for individual companies' free cash flows but also for specific commodities. It has become increasingly clear that the industry capex starvation from 2012 through to 2015 is likely to continue to have an adverse effect on expanded production of certain metals going forward. Indeed, with industry capex estimated to be down nearly 30% in 2015 compared to the 2012 peak, and growth capex down much more sharply (over 50%), lower volume growth will be a feature of the second half of the decade.

There are a number of lights blinking green at the moment with respect to the mining sector. Essentially we believe the potential for strong returns has improved dramatically. In the short-term the pro-growth quantity call being made in China, aligned with a bounce back in the US, bodes well for the second half of the year. In the long-term, prospects in Europe and particularly India could extend a strong period of real commodity demand. We also believe that the perception of increasing inflation will result in gravitation towards miners.

From a cyclical perspective we think that current capex spend trends are setting up selective commodities for the next upcycle in pricing. In particular we believe the broader strength of the base metals market forecast for 2016 will start to become more widely appreciated in the coming six months. Given the above, we remain positive on the structural prospects for natural resources. *Philip Richards and team, managers of RAB Special Situations*

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Prices for precious metals recovered in the first half of the year with gold up 10% and silver up 8% in dollar terms. The iron ore price fell sharply, falling 30% as Chinese demand was sluggish and additional supply came on line. Analyst forecasts for iron ore suggest that its price could weaken further due to an expected supply surplus. Equity markets for mining shares have been highly volatile in the first six months of 2014. Investor sentiment towards the mining industry has as ever been cyclical. Although it appears that sentiment and therefore mining share ratings have "bottomed out", the timing of an upswing cannot be predicted. *Baker Steel Capital Managers LLP, managers of Baker Steel Resources Trust*

Private Equity (*compare Private Equity funds here*)

Looking at the wider market, an improved fundraising environment and the continued availability of debt to finance new deals on attractive terms has meant that the volume of new deals is still strong. This, in turn, has meant that the environment for new investments has remained competitive with average pricing and leverage levels increasing in both Europe and the US.

Against this backdrop, attractive returns can still be generated by private equity managers with a disciplined and differentiated approach to value creation through operational and strategic change. *Lynn Fordham, Chairman, SVG Capital*

Reinsurance sector (*compare Insurance and Reinsurance funds here*)

Excess capacity in both property catastrophe reinsurance and retrocession has resulted in a challenging operating environment for participants in 2014 compared to previous years. In a low interest rate environment, the appetite from capital market investors for catastrophe risk remains high and there is a general acceptance that the "new money" is here to stay.

However the flow of new money into the catastrophe risk sector has now slowed down, resulting in a smaller number of new ILS funds, sidecars and collateralised catastrophe writers being formed. As property catastrophe prices soften, we are seeing the ILS sector now diversifying into some other insurance classes in which CATCo does not participate. *Nigel Barton, Chairman, CatCo Reinsurance Opportunities*

Utilities Sector

After a period of unusually low volatility and steadily rising equity markets, commentary is increasingly focusing on equity valuation, mainly as a result of this strength. However, having missed out on much of the equity market performance, we feel that the global utility sector continues to offer attractive value. The strength of sterling remains a significant challenge both for asset and income growth [*for portfolios with overseas exposure*]. *Geoffrey Burns, Chairman, Premier Energy & Water*