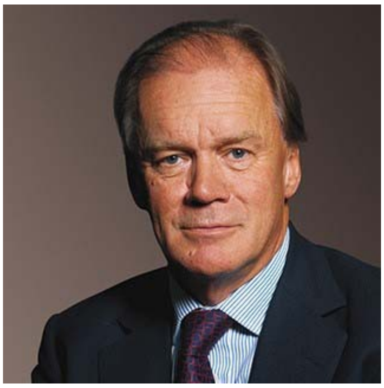
October 2015

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 minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

In this month's roundup:

Global *(compare Global funds here)*

The Governor of the Bank of England, Mark Carney, has recently suggested that the first rise in UK interest rates for more than six years could be on the agenda of the Monetary Policy Committee around the turn of the year. By then we should know whether or not the Federal Reserve also has opted to raise US interest rates. If so, it will be the first sign that we may be close to the long awaited normalisation of monetary policy after six years of extreme and abnormal measures designed to moderate the impact of the global financial crisis.



The current bull market has already run longer than the historical average, and valuations remain full, but given the backcloth of bountiful liquidity and low interest rates, there is room for equity markets to continue to progress over the next year. Some positive signs are apparent as the new financial year begins. The UK economy is gathering speed following the Conservative election victory in May; the US recovery increases the possibility of a rate rise at some stage in 2015, Japan's economy is feeling the benefits of a range of stimulative policies, while consumers in most of the world are yet to feel the full benefit of the sharp fall in oil and other commodity prices since last year.

As always however, these positives have to be weighed against a number of broader risks, which include slower than expected growth and unexpected geopolitical shocks. The recent turbulence in the Chinese markets and further evidence of its slowing economy gives cause for concern not only for Asian markets but for global growth generally. Nobody can be sure how the financial markets will react to the first evidence of a normalisation of interest rates in the United States or UK but historic evidence suggests that the market reaction in the year following the first rate rise is not as bad as many fear. On relative valuation grounds, real assets such as equities and property continue to look attractive when set against bonds, but a correction in absolute terms clearly remains a possibility. From Tom H Bartlam, Chairman, Jupiter Primadona

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In our view, the UK remains several steps ahead of the rest of Europe both in terms of the recent rise in real incomes and the increased likelihood of a UK interest rate rise at some stage in 2015. The Company's domestic exposure therefore remains weighted towards consumer stocks and financials, sectors which should benefit from a strengthening UK economy. Although headlines have recently been dominated by the crisis in Greece, in the background Europe's economy has shown signs of recovery, with growth expectations for many Eurozone countries creeping upwards. For this reason, we remain optimistic on the outlook for Europe.

Globally, the US stands out as the best performing major economy. With unemployment continuing to fall, the Federal Reserve has indicated that interest rates will likely rise in the autumn of 2015. While we view the normalisation of monetary policy as a positive development, the process is not without risk. Emerging market assets, in particular, are likely to come under further pressure, particularly given the recent slowdown in China and poor economic fundamentals elsewhere. In our view, the de-synchronisation of US and UK monetary policy with the easing measures pursued elsewhere in the world is likely to drive volatility in already distorted financial markets. From Richard Curling, Jupiter Asset Management Limited, manager of Jupiter Primadona

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We remain constructive on the outlook for global equity markets, although, after a phenomenal rise over the last few years, future returns are likely to be more modest. In the US, after some sharp downward revisions required by the rise in the US dollar and fall in the oil price, earnings estimates have stabilised in recent months. Even with operating margins close to record levels, revenue gains are still being enhanced by operating margin improvement. In Europe, the recovery is broadening, as seen in improving economic confidence, as well as continued easing in credit conditions. In contrast to the US, where the expansion is reasonably mature, Europe is in the early stages of a rebound from the double-dip recession. When we look at the differential between earnings in the US and earnings in Europe and returns on equity between the two regions, we believe that a recovery in Europe should encourage a move towards normalisation in these relationships. Quantitative easing in Japan, as well as Europe, should continue to be supportive of equities in addition to the improvements which are taking place at a corporate level. Currently the main conundrum concerns the growth rate in China. Despite official GDP growth numbers of around 7%, other factors, like the weakness of commodities and of industrial production in the rest of emerging Asia, seem consistent with much weaker growth in China. Although there is plenty of scope for the Chinese authorities to introduce further measures to stimulate growth we are hesitant to increase our exposure to companies with high Chinese exposure in the absence of very compelling valuations and clear stock-specific catalysts.

The use of capital remains a very important theme and a differentiator in the current market. In the US, stock buybacks at record levels are boosting earnings growth to a significant degree, although the market is rewarding buybacks less these days; a logical response to the much higher prices that companies now have to pay when repurchasing their own shares. The world ex US is, however, picking up the pace on buybacks, particularly in Japan. Globally, the M&A cycle is in full swing, driven by abundant cash flow and cheap financing. From Jeroen Huysinga, Investment Manager, JPMorgan Overseas

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Four years ago, between July and August 2011, our benchmark index fell 19% over a six-week period. Until the dramatic fall in global markets during August this year (which resulted in a cumulative 17% fall since the high in April), equity markets had been extremely resilient and had failed to correct by as much as 10% on any occasion.

In my opinion, the key determinant of equity market direction currently remains the underpinning offered by near-zero interest rates for depositors. Although more commentators are now suggesting interest rates will rise this year in the US, any increases are likely to be small. The global, and to a lesser extent, US economic outlook, remains uncertain and there is little prospect of a dangerous rise in inflation. Indeed, China's economic slowdown and currency devaluation are further deflationary pressures.

Forecasting currency changes, interest rates and political events that may move markets is hard to do, not least in the current uncertain climate. In general terms, the current environment does not favour companies whose fortunes are extremely sensitive to economic activity - I am not expecting a significant economic recovery any time soon.

While interest rates remain low, equities remain attractive to investors and I believe global equity markets can continue to move higher. Accordingly, I am expecting slow and probably rather laboured upward progress in markets.. From Tom Walker, manager, Martin Currie Global Portfolio

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Market volatility has continued to rise throughout the last twelve months and even more so recently. As the US and UK central banks head tentatively towards interest rate normalisation and the introduction of gradual interest rate increases, most other central banks are moving in the opposite direction. The central banks of Europe and Japan have introduced Quantitative Easing ("QE") and China has adopted an accommodative stance towards its markets, as have Australia's and New Zealand's central banks. Against this backdrop global gross domestic product ("GDP") and in particular China's GDP has weakened. This has resulted in weak demand for commodities which, coupled with their oversupply, has seen most commodity prices sharply down. Lower commodity prices and weaker GDP have together driven lower inflation and in some cases deflation. We have seen Switzerland decouple the Franc from the Euro and countries such as Switzerland, Denmark and Sweden move to a negative interest rate environment. These are not normal markets and the fallout from the Global Financial Crisis remains with us and is yet to play out in full. We expect the stresses to result in increased volatility going forward and wider dislocations. From Dr Roger Urwin, Chairman, Utilico

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Global stock markets fell sharply in the weeks following our company's year-end on fears that Chinese monetary policy would prove deflationary at a time when the US Federal Reserve was contemplating raising interest rates. Our investments in cash and gold provide diversification and should prove defensive in adverse circumstances. Over the longer term, our holdings in Asia ex-Japan and emerging markets should benefit from favourable demographics and economic growth. In the developed world, the holdings that focus on consumer-orientated companies with strong business franchises and good earnings visibility should benefit from the recent oil price fall. Central bank policy in Europe and Asia is likely to remain supportive for some time to come while in the US, when interest rates do rise, the rate of increase is likely to be modest. From Geoffrey Howard-Spink, Chairman, New Star Investment Trust

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In the weeks immediately after New Star Investment Trust’s year-end, equity markets fell sharply and volatility increased. In the early autumn 2015, it was unclear whether investors' fears would be realised and that the change in China's monetary policy would prove to be deflationary. The potential for negative surprises clearly increased as the Chinese economic growth slowdown occurred at a time when the Federal Reserve was contemplating an interest rate rise. Our investments in cash and gold provide diversification and should prove defensive in adverse circumstances. At the year end, however, the holdings in Asia ex-Japan and emerging markets remained significant given the longer-term attractions of these economies in terms of favourable demographics and potential economic growth.

The prospects remain positive for consumer-orientated companies with strong business franchises and good earnings visibility. These businesses should benefit from the recent oil price fall. Central bank policy is likely to remain supportive for some time to come. When US interest rates do rise, the rate of increase will be slow. From Brompton Asset Management, managers of New Star Investment Trust

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In some ways our views have changed little in the seven years since the global financial crisis; not through dogmatism but because many of the fundamental causes of the financial crisis continue to threaten the world today. There was, and remains, too much debt in the world (or looked at another way, not enough collateral) and the authorities have thus far failed to massage real interest rates low enough to provide any meaningful relief from this burden. The experimentation with ZIRP (zero interest rate policy) and now NIRP (negative interest rate policy) was an obvious and necessary condition for survival in a debt laden world. However, the persistent lack of inflation, has robbed the authorities of the ability to use negative real interest rates to erode the millstone of liabilities. A recent BIS/McKinsey report shows that developed world debts have barely shifted from pre-crisis levels. Marry this to the capital market deepening in emerging economies and total global debt is now some $200tn, up from $142tn in 2007, and equates to 286% of global GDP compared to 269% in 2007. We live in a world where the authorities are settling for refinancing the debt burden at ever lower rates, thereby extending the current low growth environment, and simultaneously providing encouragement for the previously un-indebted (US corporates/China) to increase their own debts to fund share buybacks so that earnings per share can grow even if capex and real profits are not increasing.

We continue to believe that these obligations are unpayable, and therefore will be defaulted on - in our view via the pernicious but politically more palatable option of inflation and negative real interest rates. This is a benign outcome for the over-indebted, but a game-changer for savers. While this may be taking some time to play out, the direction of travel has not changed and this remains the single biggest threat to the spending power of our investors' savings.

But even here there is a problem. It seems that 'some inflation' is surprisingly difficult to create when there is none (just ask the Japanese, or even the Germans, forced into QE by the inconvenience of the oil price halving just as Eurozone inflation fell to zero). Naturally, in response to ECB QE, equities shot higher celebrating easing monetary conditions and German bond yields were driven to negative yields. In the closing days of April the quiescence in Eurozone bond markets was violently disrupted as German ten year yields shot higher by 1,000% (to a still meagre 1%) which attests only to the absurd levels to which they were driven.

The life-support policy of easy money has created inflation but only in financial assets and not in the real economy. It has created 'voucher money' which can only be spent within the financial system. The next step to stimulate the real economy may involve the crossing of another Rubicon in using fiscal stimulus. Think Franklin D Roosevelt's "New Deal", infrastructure projects, even Help to Buy II. We believe this can and will be done if required; it seems eminently appealing when politicians know voters prefer the carrot to the stick. An interesting thought experiment asks - what if there is a shock to markets before rates have been dragged off the floor? What is left in the toolkit to provoke the same shock and awe as the lowest interest rates in 300 years and $5tn of global quantitative easing? Like Pavlov's Dogs, investors have been well trained to respond to the signals of central bankers, but the law of diminishing returns requires bolder and more wanton action at each crisis.

Lastly, as absolute return investors we worry about broad-based correlations across asset classes. If the rising tide can float all boats, which is broadly what has happened since the financial crisis, then there must be a good chance that asset prices fall in tandem when that same tide goes out. The only way to avoid that is to replace monetary stimulus with robust economic growth and that remains elusive except on a beggar-my-neighbour basis. In high yield debt and other contexts, the Fed has recently been voicing concerns over the risk of a dislocation arising from a lack of liquidity in certain areas of the financial system. When combined with an equity bull market getting long in the tooth, these factors emphasise the need to keep our primary aim of capital preservation firmly in view. From Ruffer AIFM Limited, managers of Ruffer Investment Company

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UK *(compare UK funds here)*

Both the US and the UK continue to grow, with the UK currently enjoying 2.6% GDP growth year-on-year. Inflation remains very low, benefiting from the on-going low oil price, the recent fall in commodity prices, and declining food prices. In addition, wage increases are occurring well ahead of inflation; real wages are now rising by 3.3% p.a., and we have now seen 20 consecutive months of year-on-year increases in consumer spending power. Unsurprisingly, this has led to UK consumer confidence being at a 15 year high.

In Europe, a key trading partner for the UK, Greece has secured a bailout extension with its creditors, and new data points from the Eurozone on business and consumer confidence demonstrate that the recent Greek crisis caused little damage to the broader Eurozone countries. Stock market concerns have now focussed on China, but it is our view that the perceived risks from recent Chinese stock market turbulence are being over-played.

The two relevant risks on the horizon are the EU Referendum and interest rate rises in the US and UK. On the former, current surveys show a balance of probability that the UK will stay in the EU although the outcome is by no means certain. On the latter, it remains our view that any rise in interest rates will be small and controlled, and reflects the improving health of both the US and UK economies.

Equities still remain an extremely attractive asset class for investors, and the Mid Cap arena continues to provide additional attractions, due to its domestic focus, strong balance sheets and rising dividends. The ongoing benefit of M&A, plus the incoming wave of exciting new growth companies, provides us with confidence for the year ahead. From Georgina Brittain and Katen Patel, Investment Managers, JPMorgan Mid Cap

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The UK and US economies are gradually recovering, although growth is below the long term trend and poor productivity growth is a concern. Inflation has been virtually zero, held back by weak commodity prices, but wage pressure is starting to build and future changes to the National Living Wage will raise UK employment costs over the next few years. European economies are further behind the Anglo Saxon world but activity is also picking up. However emerging markets are more problematic, with Chinese activity subdued and commodity exporters like Brazil and Russia under severe pressure.

With the UK and US economic recoveries now more entrenched, we believe we are entering a tightening phase of the interest rate cycle. This follows a prolonged period in which interest rates have been held at rock-bottom levels. The first rate rise may have some impact on the way investors price financial assets and such fears may explain part of the recent market volatility. However, we would expect interest rate increases to be relatively modest and to take place over a protracted period. This is due to the high level of debt in the system which makes economic growth potentially very sensitive to interest rate changes.

The sharp sell-off in commodity prices, most notably oil, may give a boost to economic growth in non-producing countries in the medium term, but it also partly reflects weaker than expected demand, especially in China, which has been the biggest driver of commodity usage in recent years.

Our overall view of the prospects for UK equities has improved with the latest market setback. At the time of writing the FTSE 100 Index has fallen below the bottom end of its recent trading range as equity markets worldwide have responded to rising concerns over Chinese and world economic growth and emerging market currency instability. UK equities now represent solid value in aggregate. However there is a wide spread of valuations. Investors seem to be taking increasingly short term views on stocks, pushing relative valuations to extreme levels. This is creating opportunities for those with a longer term perspective.

In particular investors have pushed up the price of perceived safe stocks, such as food and consumer goods companies, prime property companies and those businesses delivering solid profits growth. We see little value in these areas of the market and we are concerned that rising interest rates might undermine the valuation case for stocks that are priced in reference to low government bond yields. Conversely, sectors where there are obvious short term difficulties like oil and mining are very depressed. In addition, companies that have disappointed expectations have typically been de-rated significantly.

We see good value in the oil & gas sector with emerging opportunities in mining. We also see good value in a number of recovery situations where the long term business franchise is under-priced due to short term uncertainty. One area we would highlight is the very largest companies, the mega-caps, which investors have shunned in favour of mid-cap shares. From Simon Gergel, Allianz Global Investors, manager of Merchants Trust

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The UK economy continues to perform well against a tough global backdrop, and is expected to be the fastest growing G7 economy for the second year running. Rising wages and employment combined with limited inflation continue to lift household spending power, which has positive implications for consumer facing companies, whilst continued weakness in commodity prices negatively impacts energy and related industries. Our view [*is*] that these changes are still not fully reflected in share prices.

In addition to these factors, other uncertainties such as the pace of emerging market growth, the timing and magnitude of interest rate increases and the future of Europe continue to influence our view. From Guy Anderson, Martin Hudson and Anthony Lynch, managers of Mercantile

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We have been quite cautious on the outlook for equity market returns for some time. This is based on our view that valuations are stretched, corporate earnings growth has been hard to come by and that trading conditions in many parts of the world are increasingly difficult.

At the time of writing investors have taken fright at events in China. This combined with wider fears over weakening emerging market growth and continued concerns over the impact of potential increases in US interest rates has led to some significant volatility in global equity and commodity markets and consequent hefty falls in prices. The FTSE 100 has dipped below the 6000 level and reached its lowest point for nearly three years and oil prices have retreated to around $40 a barrel, a level not seen since the depths of the financial crisis in 2008/09.

The dilemma remains in balancing income against capital value as many valuations in these segments do appear to be reaching quite distressed levels despite the likely threat of some further dividend cuts. At this stage it is difficult to tell whether this current stock market malaise will prove to be a sharp sell off with a rapid rebound as we witnessed during the so called "taper tantrum" of 2013 or something much more serious and prolonged. While these markets pose a number of challenges, particularly for income generation, they do also present potential opportunities. Current conditions are revealing some of the most interesting signs of value that we have seen for three or four years. From Rory Macnamara, Chairman, Dunedin Income Growth

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With the general election now behind us, and as the economy continues to strengthen, the prospect of higher interest rates looms large. Such increases are likely to be gradual and should be regarded as an integral part of normalising monetary policy. A key question for investors is whether such an extended period of low interest rates has caused some, in their quest for yield, to invest in more risky, more volatile and more illiquid assets, and more generally has this inflated asset prices beyond their fair value.

In the short term, equities may produce lower returns than they have done on average over the last three years, and be more volatile, as they have been since the end of June. Yet they are still attractive relative to the alternatives in fixed interest and bank deposits, both in terms of yield and capital appreciation. From Philip Remnant CBE, Chairman, City of London Trust

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UK economic growth is well-established with GDP some 5% above its pre-financial crisis peak. It is likely that interest rates will start to increase over the next six months having been at the historically low, crisis level of 0.5% for the last six years. However, interest rate increases are likely to be gradual given low inflation and the high levels of consumer debt. Overseas, the US is set to continue with steady economic growth. The outlook for growth in the Eurozone has improved helped by quantitative easing, the lower Euro and cheap oil. In China, the nature of economic growth is likely to change with less investment and more consumption. From Job Curtis, Fund Manager, City of London Trust

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Our overall view on equity markets is that whilst ratings and valuations are probably slightly above long term averages, and it is more than six years since the beginning of the current bull market in equities, equity markets can continue to progress. Quantitative Easing has led to many asset classes offering paltry forward returns. Witness the sovereign bonds issued earlier in 2015 by the Swiss and German authorities which were sold on a negative nominal yield!

However, in absolute terms, we concur with a number of clients who have expressed recently that they do not expect future returns from equities to match the strong run of the last few years, and that they perceive that general market risks are increasing.

Returns are often driven by valuation levels at the point of investment. The lower the starting valuation, the greater the likelihood of strong future returns, and vice-versa. In terms of risks, the market cannot rerate for ever, and delivering earnings growth appears to be becoming increasingly difficult for many companies. We believe that this is a feature of the maturing economic cycle, political and economic sclerosis in Europe and significant growth downgrades in the BRIC countries.

As a result, companies offering genuine sustainable structural growth should trade at premiums and be increasingly sought after. In comparison, according to the brokers Liberum Capital, there have been net outflows of UK Equity Growth funds in the first half of 2015, despite their relative outperformance of the market, and net inflows into UK Equity Income funds, despite income funds in aggregate underperforming the market. We have witnessed what we believe to be some of the impact of these trends in our broad investment universe. High yielding equities with limited growth and sometimes limited cashflow often appear to be over-valued using our investment framework. We have also seen the so-called "Bond-Proxy" equities, such as large cap consumer staples companies, trade at high ratings which we find difficult to reconcile with their growth track records or prospects. In comparison, we have found what we perceive to be good value among reasonably priced high quality but small growth companies, which often have low dividend yields.

Within our investment universe, forecast earnings growth among the average constituent of the FTSE Small Cap Index ex investment trusts remains below 5%, whilst these companies' average P/E rating is in the mid-teens - hardly an exciting combination. However, our investment mandate enables us to select companies which provide a more compelling growth/valuation mix, whilst being in our view higher quality than the broader quoted peer group.

With more than £11bn invested in UK Smaller Company Open Ended Investment Companies ("OEICS"), compared with only c£4bn invested in investment trusts focused on UK Smaller Companies, the vast majority of fund managers in our broad peer group are subject to daily inflows and outflows on their funds. Given the uncertainties in markets and recent negative fund flows, we have observed that many peers are reluctant to invest in companies with market capitalisations of below £350m, due to the lower liquidity in the shares of these companies. As a result, there tends to be a significant discounted rating for companies below this level.

We believe that next year will see another period of mixed trading from quoted companies. We would not be surprised to see volatility rise as the US eventually begins the process of raising interest rates. This could have serious knock on impacts in emerging markets which have US Dollar denominated debt. We believe that the dysfunctional economic and political institutions of the Eurozone, combined with low growth and unsustainable public debt are an ongoing threat to equity markets. Within the UK, the euphoria of the decisive general election is likely to recede as the realisation dawns of ever increasing public debts and public spending cuts to come. From Stuart Widdowson/Jeff Harris, GVQ Investment Management Limited, managers of Strategic Equity Capital

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Slow recovery in economic activity in the developed economies of the US and UK now seems to have arrived in parts of Europe, but it is hard to see any immediate improvements in China and other emerging areas. Indeed, things may get worse before they get better. This seems likely to provide episodes of instability and heightened risk through political upheaval and disturbance in international markets such as currencies. Almost by definition we must also now be closer to the moment when interest rates in the West rise from current near zero levels, with some of the quantitative easing which pushed up asset prices already withdrawn. Much-discussed and much-postponed, when rates do eventually rise, it will hardly come as a surprise, but overall levels of borrowing remain high and some casualties should be expected.

The good news is that lower oil and commodity prices generally are feeding through to lower inflation and boosting real incomes for consumers, whose wages are now also beginning to rise. Perhaps we will also see at last some gains in Western productivity, the absence of which has been such a puzzle for economists.

In such an environment it seems right to continue to construct a portfolio of companies with strong franchises and balance sheets, with visible (and repeatable) profit prospects and to avoid high valuations. Because pay-out ratios are high, the penalty for misjudgement in selection is perhaps even more likely to manifest itself in passed or cut dividends in portfolio companies. From N A Honebon, Chairman, Murray Income

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As we suggested in last year's Report, the UK equity market has struggled to deliver the generous levels of returns that it generated in the two prior years. Given the strength of the recovery in share prices, aided by the policies of central banks, and the lack of aggregate earnings growth, it is still very difficult to argue that valuations in absolute terms look attractive. Furthermore, the prospect of rising interest rates in the United States may well present further challenges for equities. We remain watchful of slowing growth in emerging markets and China in particular. The Conservative majority at the general election has removed concerns over a number of potentially less business-friendly policies although the market will, at some point, need to consider the prospects for a referendum on the United Kingdom's membership of the European Union. From Charles Luke, Aberdeen Asset Managers Limited, managers of Murray Income

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The recent severe correction in Chinese markets reflects further slowing in the rate of growth of that economy. This should really come as no surprise given that China is moving to a new stage in its development. This is a less energy, infrastructure and commodity intensive phase where there will be greater emphasis on domestic consumer markets and quality of life issues such as education and the environment. In the short term there will be dislocations impacting the oil price, commodities such as copper and iron ore and their associated industrial sectors. Furthermore, anti-corruption initiatives have put the brakes on spending at the luxury end of the market. The medium to longer term outlook for China still looks strong but with a different emphasis than before.

The Governor of the Bank of England recently signalled the likelihood of interest rates moving upwards from current record low levels by the start of 2016, increasing in quarter point increments over the next three years. This is the sharpest yet statement of intent by monetary authorities that the slow recovery from the banking crisis is over and that "special measures" are being unwound. He has picked that point a year on from the inflation busting falls in the crude oil price.

While certainly not the end of the world it is fair to say that many borrowers have become rather used to the delights of ultra-low interest rates and may find the percentage increase somewhat painful. There is also no doubt in my mind that ultra-low interest rates have inflated the value of real assets of late which may unwind somewhat. Chinese turmoil however, may delay the point where interest rates are increased.

In the meantime though, the UK & USA economies are in pretty good shape and are growing steadily representing a benign environment for UK small and medium sized listed companies. Europe as well, especially the northern half, is responding to recent quantitative easing initiatives.

The outlook for corporate profits is still very positive although those companies in more cyclical sectors are showing profit margins at or near cyclical peaks, hence our preference for businesses demonstrating organic growth. This also supports our view that we are very much in the later stages of the current economic cycle which after all started its upward move from the nadir in 2009 which is six years ago. Corporate activity is increasing with gradually increasing numbers of mergers, acquisitions, share issuance and new listings. All this is again symptomatic of a mature economic cycle. Valuations for smaller companies remain toward the upper end of the spectrum leaving the market open to the threat of correction.

Geopolitics remains murky with plenty to worry about from Isis to Ukraine and Greece. The latter looks destined to cause further trouble in future. The quantum of Greek debt has not been reduced which to me means a lasting solution has not yet been achieved. The US/Iran deal coupled, with China weakness looks positive for low oil prices being in place for longer which is a good thing for world economies, including the UK.

The vast majority of our companies have net cash positions and can grow from internally generated cash-flows in a predictable way. Dividend growth is strong and special dividends are quite plentiful without compromising growth prospects. From Harry Nimmo, Standard Life Investments, Manager of Standard Life UK Smallers

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Europe *(compare European funds here)*

Despite the seemingly never ending political squabbles in the Eurozone, it has been a reasonable year for European equity markets. This has been encouraged, from October 2014 onwards, by clear signs that the long awaited economic recovery has finally begun, assisted by the ECB's Quantitative Easing.

Going forward the shambolic situation in Greece will probably continue to grab the headlines but more important will be whether the global economy can continue to improve. Our fund managers will monitor the potential economic fracture points around the world, notably China. At a stock level we are starting to see earning upgrades in European smaller companies for the first time in four years, which is clearly very helpful. From Audley Twiston-Davies, Chairman, TR European Growth

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The political discord within the Eurozone has been a persistent feature of the news headlines in recent months and years, with the situation in Greece providing entertaining politicians and drama for journalists. Similarly, we are mindful of wild gyrations in the Chinese stock market and a slowing real economy. Russian aggression in Eastern Europe and the negative impact of economic sanctions make for a real economic headwind. The seemingly imminent rate rises by the Federal Reserve worry the market as potentially being premature. However, the fact that economic recovery in Europe is progressing, albeit at a relatively slow pace, is less frequently referred to. Economies that have put effort into restructuring such as Ireland and Spain have begun to see recovery. The changes brought about by

Prime Minister Renzi in Italy came suddenly just as the market began to doubt his commitment to them. However they already seem to be bearing fruit. Striking ferry workers and militant taxi workers in Paris show an economy that is still in desperate need of reform, yet despite this there are even signs of life in France. The government's property incentives appear to have helped. Whilst still inadequate, the Eurozone focus on banking reform and banking union show that policymakers have begun to understand the problem.

While there continue to be risks, we remain cautiously optimistic and believe that things are getting better. We have no reason to change our central scenario of being at a mid-cycle point in what will be a long, drawn out and muted recovery in European economies. The euro has fallen as the ECB has commenced QE and the fall in the oil price is a big shot in the arm for the economy in general. The combination of these two factors has driven corporate earnings upgrades for the first time in many years. While the European stockmarket in aggregate has performed well, the fact is that European Smaller Companies remain the last undervalued asset that investors can pursue. This valuation discrepancy is at its greatest in stocks under £1bn market cap. We have begun to see a pick-up in mergers and acquisitions [*and*] we expect M&A activity to continue, with smaller companies providing inorganic growth for cash rich companies in the slow growth economic environment. From Ollie Beckett and Rory Stokes, Henderson Investment Funds Limited, managers of TR European Growth

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Korea *(compare Country Specialist - Asia Pacific funds here)*

Events in China and Japan in the short term may affect the Company's underlying portfolio in the short run. However, the South Korean market remains cheaper than comparable markets, and Korean preferred shares appear cheap both on an absolute basis (price-to-earnings ratios, etc.) and on a relative basis (large discounts to corresponding common shares).

In absolute terms, the prices of South Korean companies may be depressed by low dividend yields, as South Korean companies continue to retain earnings and offer low payout ratios. South Korea's history of poor corporate governance may also explain Korean companies' low valuations. We believe that corporate governance developments in South Korea are positive over the long run. Also, the National Pension Scheme has been aggressively buying shares in South Korean companies: in the first quarter of the year we estimate that it bought shares at an annualised rate of roughly 1.5% of the market capitalisation of the KOSPI Index.[10]

However, it is almost impossible to predict the timing of changes in countries, economies, and cultures. Historically, changes that affected preferred share discounts in other countries (e.g. Brazil and Italy) have occurred somewhat suddenly and unexpectedly. In the short run, prices are driven by sentiment, but in the long run, prices tend to reflect underlying value. From Weiss Asset Management LP, managers of Weiss Korea Opportunity

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Macau *(compare Asia-Pacific Property funds here)*

Macau appears to be heeding calls from mainland China's government to diversify its economy. While anti-graft policies will continue, the recent relaxation of visa rules is encouraging. Upcoming gaming resort developments in Cotai are poised to draw a greater number of mass-market visitors.

China recently reiterated a commitment to its ongoing anti-corruption campaign, which has seen some high-profile government figures accused of offences. The anti-graft campaign appears to be here to stay, with the market having settled into a "new normal". Growth in the significantly higher-margin mass-market and premium mass-market gaming segments has been outperforming VIP gaming growth. The premium mass market includes in particular the rising middle classes, who place bigger minimum bets than traditional mass-market customers, but smaller bets than customers in the traditional VIP segment.

The mainland Chinese government announced that from 1 July 2015, transit visa rules would be relaxed for its citizens. Mainland Chinese are now allowed to stay in Macau for seven days, up from the previous five. Mainland Chinese nationals will also be able to visit Macau twice a month instead of only twice every 60 days, which was the case previously. While this policy change is largely symbolic, it should nevertheless have a positive effect on the premium mass-market and VIP gaming segments. We believe that the visa rule change signals that the mainland Chinese government is keeping an eye on the territory's gaming industry and lending support to it to prevent gaming revenues from sliding materially further.

While gaming has proved fruitful for the territory, generating revenue of US$44bn amid overall GDP of US$55bn last year, there is an increasing need for economic diversification. The strongest support for diversification has come from Chinese President Xi Jinping, who in December last year called for it to be accelerated. Gaming operators have taken steps to ensure that they are falling into line with Macau's ambitions, with the upcoming Cotai developments fielding several significant non-gaming attractions. Neighbouring Hengqin Island, Zhuhai, is also complementary to Macau's non-gaming development. Chimelong Ocean Resort, which opened in Hengqin Island in 2014, welcomed eight million visitors last year. Visitor figures look set to rise, with the resort operator saying that it saw a 30% rise in visitor numbers in the first half of 2015. With the opening of two additional hotels this year, the resort now offers around 5,000 hotel rooms spread across three properties.

Some analysts expect Macau's commercial environment and overall demand to remain weak; BNP Paribas predicts only 2% growth for the second half of 2015, and the Macau government has warned that the city's gaming revenues could continue to fall in coming months. In addition, the territory's government has signalled that it is looking to impose a smoking ban in casinos, although it has recently appeared more open to negotiations on smoking rooms - which some casinos already offer - rather than a full smoking ban that could negatively impact gaming revenues in the future. The weakening yuan and slowing economic growth in China remain concerns. We are monitoring the developments in China, while adopting a cautious short-term outlook.

Consolidation of Macau's rapidly advancing economy that has ridden an unprecedented gaming boom over the past 11 years was inevitable at some stage, and moves by the mainland Chinese government have been a catalyst for a healthy medium-term slowdown. This dynamic is likely to persist in the short term but with economic diversification taking root in the shape of Cotai's upcoming gaming resorts, continuing infrastructure developments and still powerful underlying demographics, the positive longer-term story for Macau will prove enduring. From Sniper Capital Limited, managers of Macau Property Opportunities

Emerging Markets *(compare Emerging Markets funds here)*

The outlook for equity investments in emerging markets remains uncertain. It has been apparent for some while that companies continue to face a number of challenges and the prospect of lower profitability as competition increases and more obvious business penetration opportunities gradually decline.

China's growth - and its impact on the rest of the world - remains a headline concern. It is also true that historically US interest rate "normalisation" tends to be associated with crises in emerging markets - and, sadly, not enough countries have implemented the necessary reforms over the mostly benign environment of the last decade that may have mitigated the heightened risks.

Despite disappointing performance in recent years, the fact that much of it was due to the weakness of emerging market currencies against the US dollar means that many companies are still not necessarily cheap in their own local context.

The challenging global environment provides an excellent opportunity for good businesses to outperform their peers and gain market share. From Coen Teulings, Chairman, Genesis Emerging

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It is never dull in emerging markets; everyday, there is something that one could react to as an investor. In spite of this, I try not to make too many decisions: I do not start the day expecting to change the portfolio, but try instead to concentrate on the decisions which the market forces on my attention by moving share prices in an extreme way. I suspect that over the next year, there will be more of these.

Much will depend on what happens in China, where the authorities are probably fighting a secular transition to lower economic growth as if it were a cyclical slowdown. Real, far-reaching reforms will have to involve a redrawing of the state's role in the commercial sector and an acceptance of the primacy of market forces in determining outcomes, rather than government policy. That remains a very large step and not one that can be achieved without some disruption; perhaps because of that, the government seems to be moving tentatively and sometimes in contradictory ways, hoping perhaps that the cycle will recover and the difficult decisions will not be necessary; I suspect they will be disappointed. If I am right, however, China could become a very interesting investment destination indeed and a place where we could have much more money invested on shareholders' behalf than we have today. This is made all the more likely by the gradual opening of the 'A' share market, hitherto accessible only to domestic investors, to foreign capital. The kinds of companies that we like to own - private enterprises motivated by the creation of value for shareholders - should be easier to find there than in the 'H' share market of companies listed in Hong Kong, which is dominated by very large firms in industries essentially owned by the state, like banking, energy and telecommunications. So we are devoting increased resources to researching Chinese companies in a variety of industries, from healthcare to manufacturing, hopeful that if the current sell-off continues, good Chinese companies will be available at bargain prices.

In general, prospects for emerging markets look quite challenging at the moment, though history teaches us that when pessimism abounds and valuations have fallen, one should in fact become more positive rather than the reverse. We know what kinds of businesses we are looking for and we also know that share prices do not decline without a reason; so the essential task is to identify those companies whose long term opportunity and competitiveness is not really affected at all by short term developments, even if the market thinks the opposite. From Austin Forey, Investment Manager, JPMorgan Emerging Markets

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Frontier markets have endured a challenging period on the back of a combination of factors, some domestic, but the majority international in nature. This period of disappointing performance has coincided with, or perhaps encouraged, indifference towards the asset class. While this may remain the case for some time, such moments have historically made for attractive entry points for those who believe in the long-term rationale for including frontier markets (high growth and attractive valuations) in a diversified portfolio. We believe this rationale remains valid, despite the headwinds presented by low commodity and energy prices, a strong US dollar and (at some point) interest rate increases in the United States. The valuation argument is particularly strong at present with frontier markets trading at a significant discount to both emerging and developed markets.

When we look at the frontier market asset class, we see a balance of opportunities and risks. We are excited by the opportunity to buy Vietnamese assets at discounts to NAV at a time when the economy is improving and foreign investors are being encouraged to buy through the relaxation of foreign ownership limits. The same is true in Saudi Arabia, where the opening of the market to foreigners has just begun. In Pakistan, a recent upgrade by S&P of the country's sovereign rating, the meeting of key milestones set by the IMF and news of significant investment in infrastructure from China all point to an improving macroeconomic environment. Whilst the opposite may be true in Nigeria, equities in that market are now amongst the most lowly valued in the world, and with many still growing local currency earnings at healthy levels. Holding one's nerve in the face of the headwinds buffeting the country is, we believe, the right thing to do for the long-term given the potential of what is now Africa's largest country by GDP. In Argentina, we believe that political change in October will pave the way for that economy to re-engage with the international financial community after a decade long absence, irrespective of which party secures the presidency.

In general, further weakness in currencies and persistent weakness in energy and commodity prices appear to be the major risks facing the asset class. All three are inextricably linked to the path of the US dollar and interest rates. As the year ahead now seems highly likely to see the first US rate rise(s) in almost a decade, we will remain prepared for volatility. Any reversal in these trends would probably see frontier markets re-rate significantly, providing the potential for handsome returns for investors that can look beyond the current uncertainties.

At the same time as the investment case unfolds in established frontier markets, excitement is growing regarding the opening up of new markets, with Iran and Cuba generating significant interest at present following a thawing of diplomatic relations and subsequent moves to relax (or remove) sanctions. Both could potentially qualify as frontier markets by our definition should they eventually become investable. From Advance Emerging Capital Limited, managers of Advance Frontier Markets

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Qatar *(compare Country Specialist - Other funds here)*

Looking ahead, the Qatar market is expected to perform well over the long term on the back of strong fundamentals, infrastructure spending, on-time projects completion, non-hydrocarbon economic growth and a rising population. The Qatari government is set to continue with its infrastructure spending programme irrespective of the FIFA World Cup. The majority of these projects were planned before the World

Cup was awarded in 2010. Infrastructure spend should support economic growth of over 6% per annum until 2017.

Qatar is spending over US$200bn on infrastructure in the next seven years, in line with Qatar National Vision 2030. This is funded by large reserves accumulated from hydrocarbon earnings. We expect that recent oil price declines should have a limited or delayed impact on government revenues, given Qatar's long term liquefied natural gas (LNG) contracts. Qatar's 2016 budget will be based on an assumed oil price of US$55 per barrel, lower than current assumed oil price of US$65 per barrel. Spending directly related to the World Cup is estimated at US$15-16bn, representing about 7.5% of total infrastructure spending. While the FIFA World Cup provides impetus to project activity it is one of several factors driving infrastructure investment.

According to NBK Capital reports, contracts worth US$29bn were awarded in 2014, 30% up on 2013. This momentum is expected to continue through 2015 and 2016. In the coming year contracts valued at US$70bn are expected, with over US$13bn already awarded in Q1.

The Investment Adviser believes Qatar's long term infrastructure spending will continue, driven by low gearing, accumulated budget surpluses and Qatar having one of the lowest break even oil prices for its oil production, in the region. Excluding the World Cup related investment, we believe that Qatar's GDP would still continue to grow above 5% annually.

Qatar's population increased 4.9% from January to June 2015, to a total of 2.34 million. Population growth is expected to remain strong as infrastructure spending attracts expatriate workers. The Investment Adviser believes that the rise in population should drive consumption growth, benefiting local consumer companies.

Lower oil prices should mean lower budget and current account surpluses. Qatar's budget surplus is expected to decline from 10.8% of GDP in 2014 to 1.6% and 2.2% of GDP in 2015 and 2016, respectively. The current account surplus (as a % of GDP) is forecast to fall from double-digits in 2010 to 4.4% and 3.1% in 2015 and 2016, respectively.

Qatar is consistently taking steps to reduce its reliance on hydrocarbon income. Non-hydrocarbons rose from 55% of GDP in 2007 to 62% in 2014. Qatar is continuing to diversify and the share of the non-hydrocarbon sector in the economy should increase further, as oil prices remain low. Strong fiscal balances, healthy current account surpluses and low inflation levels should help the country continue with its infrastructure development plan.

According to Qatar Central Bank (QCB) data, total credit extended by Qatari banks grew 6.5% between December 2014 and June 2015 (year to date). The Investment Adviser believes credit growth will remain at healthy levels, driven by infrastructure spending, non-hydrocarbon sector growth and the increasing population. From Epicure Managers Qatar Limited, managers of Qatar Investment Fund

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UK Property *(compare UK Property funds here)*

In line with consensus forecasts, we believe that UK commercial property will continue to deliver positive total returns over the next few years, although this may be front-loaded. There are global uncertainties which may make investors wary. Further yield compression may be limited especially if interest rates start to rise. Returns are more likely to be income driven but aided by rental growth in certain key areas and sectors. From Quentin Spicer, Chairman, F&C UK Real Estate

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If the economy performs in line with consensus forecasts, we believe that property will continue to deliver positive total returns, although performance may be front-loaded. There are uncertainties in Europe, the US and China and as the UK referendum on EU membership approaches, this could lead to investors delaying decisions until the result is known. The scope for further yield compression may be limited once the UK authorities act to raise official interest rates and property performance is likely to become more reliant on rental growth and the income return. We continue to believe in the importance of sound stock selection and that the protection and enhancement of the income stream will remain key in delivering performance.

Our underlying market dynamics are strong and we believe that they will remain that way for the foreseeable future. There are seven times as many students studying in the UK as there were a generation ago (based on acceptances of undergraduates compared to the 1970s) and despite many years of substantial private sector investment in purpose-built student accommodation, there is still very little purpose-built accommodation available for second and third year undergraduates and postgraduates.

HESA statistics for 2013-14 showed that university attendance was at a high and UCAS statistics for Autumn 2015 entry are up across all sectors particularly for, inter alia, students from the EU. Overlaid on that is the recovery in the UK economy, with the availability and cost of debt easing gradually.

Land values have increased over the past year, but this does vary from city to city. It is now not unusual to be outbid for a site and then to find the winning bidder falling away. There are many first-time student developers who underestimate construction costs of building and the quality of space needed. There is some overbidding for sites resulting in developers being unable to raise the development debt and looking for a forward funding route as an exit. This works to the Company's advantage as Empiric operates as both a funder and developer.

Student property has become much more readily understood as a development opportunity but the market remains fragmented. Although there have been high prices paid for some London portfolio transactions, they have not translated to single asset sale prices in the regions. There have been some hopeful asking prices in the provinces and we have had to say no to some well-located buildings where we consider that the net initial yield is just not sustainable. One of the advantages of our business is the "lettability" of these spaces - as long as we have the right building in the right location at the right price, we will let it. From Paul Hadaway, Chief Executive Officer, Empiric Student Property

The student accommodation sector in the UK has become a globally recognised investment class, with the first six months of 2015 seeing record levels of investment with approximately GBP3.75bn of deals transacted compared with the previous record year of 2012 where deals worth GBP2.7bn were transacted. A key driver of the sector is the proven track record of returns, with a strong demand from students against a backdrop of a limited supply of purpose-built student accommodation.

Total student numbers have been on a long term growth trend in the UK with an approximate 7-fold increase in the last generation (based on UCAS acceptance figures for undergraduates dating back to the 1970s). Historical numbers peaked at 2.5m in 2010/2011, then declined to 2.3m for the 2013/14 academic year. This decline, however, has been almost entirely the result of falling part-time student numbers with the number of full-time students largely unaffected. Figures from UCAS show that acceptances for undergraduates for the 2014/15 academic year increased by 3.4% (equivalent to approximately 16,800 places) over the previous year and applications for the 2015/16 academic year, so far, indicate a further 2% increase which would take application numbers above the 2010/11 peak.

A number of factors are driving the student numbers but key among these is the strong growth in students from outside of the UK; 5% from the EU and 14% from non-EU countries, representing a total of 19% of the 2013/14 student population. UCAS data indicates that applications on undergraduate courses by non-EU students increased by 5.7% for the 2014/15 academic year while acceptances by students from the EU (other than the UK) increased by 7.6% compared to just 3.2% for UK domiciled students. The demographic of students has changed with nearly 25% of students now being postgraduates. It is in this market that Empiric operates with just under 70% of customers in 2014/15 being international students from 83 different countries, 43% postgraduate and with an age range of 18-49. Whilst UK school leavers are not Empiric's target market, being only 2% of 2014/15 residents, 33% of UK school leavers now go to university.

These figures demonstrate that the UK continues to attract a large proportion of international students. Figures show that, in 2012, the UK was the second largest destination for international higher education with a 13% global share, second only to the USA with a 16% share. The global outbound student market (i.e. students enrolled outside their country of citizenship) is led by China which accounts for 19% and, of these students, 11% choose to study in the UK.

These international students are attracted to the quality of the UK's universities and teaching, a globally recognised qualification and the opportunity to enjoy life in the UK. According to recent research by the British Council, more than three quarters of new international students studying in the UK rate the UK educational offer as the same, better or much better than the main competitor country on each of these three factors. Further, approximately one in five international undergraduates expressed a desire to continue on to postgraduate study.

To date, the overall number of international students in higher education has been relatively unaffected by tighter immigration controls implemented by the last government. Instead, the current government appears keen to promote the UK as a destination for international students as the revenue generated is seen as an integral part of the UK's wider economic policy.

A further key government initiative that is expected to have a significant impact on student numbers is the removal of the cap on domestic students in 2015. Not only should this lead to an increase in UK student numbers but, paradoxically, it may fuel the growth in EU student numbers, as EU students are effectively treated as identical to those from the UK under EU regulations. The effect is that there is an increased market for UK universities to target. UCAS data for 2014/15 is showing early signs that universities may significantly increase their numbers of EU students who are attracted to English language based courses, the broader appeal of the UK and the buoyant UK jobs market. The growth of international students at UK universities has been countrywide and over the past ten years it has been faster outside than inside London.

There exists a persistent shortfall in purpose-built student accommodation, with recent figures showing that in the 35 selected premier university cities and towns in the UK now targeted by Empiric, all had a shortfall of purpose-built beds, with over 90% of students beyond their first year not having access to purpose-built accommodation. While, traditionally, purpose-built accommodation has been favoured by first year and international students, such accommodation is increasingly being sought by the postgraduate market. There is a finite supply of Victorian terraced houses, the quality of which no longer appeals to the more discerning student who can afford to pay for quality and such students are prepared to pay a premium to the price of houses of multiple occupation accommodation. Despite the expansion of the sector in recent years, still only 7% of full-time students live in private sector purpose-built student accommodation and the number of new purpose built beds built in 2013/14 equalled the increase in student numbers that year, keeping a status quo in the supply shortage.

The supply demand dynamics vary depending on local conditions with some university cities and towns outside London becoming more reliant on the revenues generated from the higher education sector. As a result, the expansion of universities and the student economy is increasingly seen as an integral part of their economic development plan. This is true for towns with a conscious regeneration agenda, such as Liverpool and Coventry, as well as the likes of Falmouth which is seeking, in part, to diversify its economy away from seasonal tourism.

According to The Times Higher Education university financial health check 2015, total university income in the UK was up 6% with total university surpluses up 12%. Moreover, 143 of the 160 institutions analysed were in surplus before exceptional items, with the top performers being smaller institutions and universities accredited after 1992, such as the University of Huddersfield.

Improving the student experience has become a priority in response to an increasingly competitive environment - this is evident in the growth in capital expenditure by the universities on new buildings and facilities as well as increasing staffing costs. Research is also a key factor in the competitiveness of a university but an increasing number of universities are having to rely on the surpluses from international students to subsidise research spending. It is predicted that with the lifting of the cap on student numbers, some universities could seize the opportunity to expand, putting further pressure on teaching and infrastructure costs... and therefore increasing the need for student accommodation. From Tim Attlee, Chief Investment Officer, Empiric Student Property

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Irish property *(compare Property Specialist funds here)*

The Irish economic recovery began in early 2013, following an unprecedented period of deep recession from 2008 to 2012. This recovery is continuing, with Ireland's GDP growth of 4.8% in 2014 the highest in the EU, and with an expectation of in excess of 5% GDP growth for 2015 by some commentators, which again would be the highest in the EU for the fourth year running. The economic fundamentals continue to strengthen, with Ireland expected to have the highest rate of employment growth in the OECD in 2015 (3% in the year to 30 June 2015), and with the unemployment rate standing at 9.5% in July 2015, having dropped from a peak of 15.2% in early 2012 and from 11.2% at 30 June 2014. With regard to wage inflation, private sector wages increased by 2.3% in the year to June 2015. Consumer sentiment has improved, there is growth in retail sales and there are positive prospects for continued growth in FDI. The Irish budget deficit is expected to narrow to 2.3% by the end of 2015, from 4.1% for 2014. The country's debt to GDP ratio, while still high, decreased from 124.2% at the end of 2013 to 114.8% at December 2014. The interest rate backdrop in the Eurozone remains favourable and the ECB's programme of quantitative easing is expected to continue through to late 2016.

The impact of this economic recovery on the property sector in Ireland continues to be particularly evident in Dublin and in the Dublin office occupier market, where vacancy rates for Dublin 2 and Dublin 4 offices are at record low levels of c.1.6% and where there is little new supply of quality office space in Dublin city centre expected until 2017, when pre-let offices under construction are taken into account. With supply continuing to be well below trend and demand remaining resilient to date, we expect further more modest growth in Dublin office rents throughout the remainder of 2015 and for 2016 and 2017. Thereafter increased supply should support a more balanced market, assuming we do not have a dramatic reduction in demand which would lead to a steep correction as witnessed in previous cycles.

With regard to the retail occupier market, retail sales volumes in Ireland were up 7.4% for the year to the end of May 2015, and Goodbody estimate that consumer spending will increase by 2.6% over 2015. The ESRI's Consumer Sentiment Index, Index of Consumer Expectations and the Index of Current Conditions all recorded their highest levels this year in June 2015 and all three indices are now at the highest level recorded since the first quarter of 2006.

This upturn has not yet translated into rental growth but with a shortage of good quality, well located retail units, growth should emerge in the short term. On a cautious note, however, the recent examinership petitions by Best Menswear and by Mothercare Ireland were somewhat surprising in the context of these improvements in consumer sentiment and spending.

With regard to the investment market, as expected NAMA and other lenders have continued to deleverage at pace in 2015 and competition for these assets remains healthy. With regard to buyer profile, this is evolving in that the largely US private equity investors who deployed their capital at early points in the recovery cycle have been selling, with these properties being bought by longer term capital from the US, Europe and domestic investors.

2014 was a record year in the Irish commercial property market with EUR4.5bn invested in direct property, 25% ahead of the previous peak in 2006 with a further EUR21bn of loan sales secured on real estate. While no commentator is suggesting that 2014 will be repeated, momentum continued in the first half of 2015 with EUR1.7bn invested, with forecasts of EUR3-EUR3.5bn to be deployed by end of 2015.

The supply of commercial real estate continues to come largely from the banks as they seek to deleverage. NAMA's balance sheet more than halved during 2014 and the agency now has in the order of EUR10.8bn in outstanding senior debt securities and EUR1.6bn of subordinated bonds, having started life in 2010 with EUR30.2bn of senior and EUR1.6bn of junior bonds. They continue to push an aggressive disposal strategy. In addition, a number of banks, including Ulster Bank (RBS), KBC and Lloyds are selling both assets and loans. It is expected that most bank deleveraging will be completed by the end of 2015, with potentially a residual amount to be dealt with in 2016. In addition to the deleveraging institutions, we are now seeing a steady stream of properties being re-traded from the early cycle opportunistic buyers who were aggressively buying from 2012 on.

With regard to yields, at the prime end there has been further yield compression in the first half of 2015, although they are now showing signs of stabilising. Since December 2014 prime Dublin office yields have moved from 5.00% to 4.50%, Retail (High Street) from 4% to 3.75%, Retail Warehousing from 5.75% to 5.50% and prime Industrial from 6.75 to 6.50%. Investment Property Databank ("IPD") recorded total ungeared returns in H1 2015 at 10.6%, bringing the annualised return to June 2015 to 33.7%. Offices remained the strongest performer, with a total return of 7.4% in Q2 2015, while retail returned 4.1% and the industrial sector appears to have turned the corner with a total return in Q2 2015 of 6%.

Offices - While 2014 was a record year on the occupational front with 225,000 square metres (2.4 million sq ft) of gross take-up, 2015 is continuing at a good pace. H1 2015 has recorded total take up of 108,283 square metres (1.2 million sq ft) which compares to 92,903 square metres (1 million sq ft) of take up in the same period last year. Dublin CBD accounted for 73% of the total office occupier market, with Dublin 2 (core CBD) accounting for 23%. Of the suburban take-up, the south suburbs accounted for 67%.

With the backdrop of continued momentum in tenant demand, and limited new stock being delivered, office rents continue to increase. At 30th June 2014 prime headline rents were in the order of EUR484 per square metre (EUR45 per square foot) while today they are at EUR565 per square metre (EUR52.50 per square foot), an increase of over 17% in 12 months. Various commentators are suggesting EUR592 per square metre (EUR55 per square foot) will be the market standard by year end.

Retail - The retail sector continues to improve. Falling unemployment, the emergence of wage growth in the private sector, low interest rates and modest tax reductions are bringing continued confidence to the consumer. While households remain in deleveraging mode and the savings rate is high relative to the long run average, it has started to reduce. At the peak of the crisis in Q4 2009 the savings rate was 16.7% compared to the long run average of 9.8% and as at Q4 2014 it stood at 11%.

Consumer spending has seen 18 successive months of annual growth in retail sales. From January to May 2015 car sales were up 26.9% year on year and retail sales were up 7.8% year on year by April 2015. Looking forward the consumer is expected to make a growing contribution to the domestic recovery over the next two years, leading to forecast spending growth of 2.6% in both 2015 and 2016 which in turn will aid the recover in the retail sector.

Good tenant demand is recorded for prime Dublin high streets and shopping centres/retail parks and over the last 6 months there is evidence of growing demand for good provincial shopping centres and high street locations. In the retail warehouse sector there is currently good demand for well located units of 465 square metre or less and for large units over 1,394 square metre (15,000 sq ft).

With spending up and tenant demand increasing there is an expectation from commentators that there will be a movement in retail rental values in the coming months.

Industrial - Activity in the industrial sector has been improving steadily from a low ebb. Take-up of industrial space (which includes sales to owner occupiers and lettings) at the half year point was184,428 square metres (1,985,164 sq ft) and year to date, take up is 225,556 square metres (2,427,870 sq ft) which is three times higher than the same period last year, which was a very poor period in the market. Typically in the industrial sector a large proportion (72%) of this activity is as a result of industrial property being sold for owner occupation.

On the leasing side, rents are now at EUR70 per square metre (EUR6.50 per square foot) and are forecast to be EUR75 per square metre (EUR7 per square foot) by year end. Almost half of the activity is focused on smaller units of 1,859-4,645 square metre (20,000-50,000 sq ft). That said, 14% of activity in H1 was accommodation of over 9,290 square metre (100,000 sq ft)

There is a strong pipeline of demand from owner occupiers and tenants and with no new development, supply of modern industrial space continues to dwindle. Overall the demand/supply fundamentals are set to see continuing improvements in rents for the best units over the next 6-12 months.

Development - There is currently 182,623 square metres (1.96 million sq ft) of gross office area, under construction in 19 projects in central Dublin. Approximately 17% of these projects are refurbishments, with the remainder new build or redevelopment projects. Of the schemes under construction at present, 38% have been pre-let. Data produced by CBRE identifies schemes under construction and when they are likely to be completed, and makes a best estimate of when schemes that are yet to commence or are within the planning process may be completed. While it is difficult to gauge development starts, it is clear that there will be no meaningful supply added until 2017/2018.

Data by Savills considers the net addition to office stock from the next development cycle. Their projections are similar to CBRE above, suggesting most development completions will occur from 2017 onwards. As with CBRE, the Savills data is only considering those schemes within the planning process, so looking beyond 2018, starts to become very speculative. Their data suggests that the actual total office stock is set to fall for the next two years as older buildings are withdrawn from the market to clear sites for new development.

Assuming all projected schemes are complete by 2018, the resultant increase in the total CBD stock could be in the order of 25% by 2018.Whilst this compares favourably to previous development boom cycles as detailed in the table below, it is nonetheless a significant addition to the Dublin market and will need sustained FDI and take up domestically for it to be absorbed without a substantial rental adjustment. From Green REIT

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Resources *(compare Resources funds here)*

In the short term the uncertainty continues. Oil continues to be priced around the $50/barrel level, and it remains true that this will put money into consumers' pockets. It is not obvious to what extent the low price level is a consequence of aggressive Saudi Arabian production, and to what extent a fear of economic slowdown, above all in China and the emerging economies. The recent rout in Chinese equity markets saw a frisson amongst world stock markets, and the decision by the Chinese Central Bank to weaken the yuan promises much more, with revived fears of currency wars and worse. Whether this will be enough to postpone the long trailed rate rise in the US remains to be seen, but bond markets continue to look exposed; their considerable correction and the substantial reduction in liquidity since 2008 increasing the risks of a liquidity crunch and spike up in yields.

On the other hand, fear in the bond markets could see asset allocations to equities being increased, and the lagging effect of commodity price falls in general, and oil in particular, may see growth expectations surprise on the upside.

What is certain, is that over the medium term the case remains as compelling as ever, with world population growth and increasing urbanisation underpinning a demand for commodities that can only expand. The current period of financial retrenchment at producing companies and virtual abandonment of exploration projects, combined with the supply constraints that threaten all but bulk commodities, will make the recovery even more dramatic when it does arrive. From Geoff Burns, Chairman, City Natural Resources

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Less supply and more demand is the quick fix prescription for the ills of the resource sector, and one that is currently dismissed as credible by the wider market. Whilst acknowledging that the bulk commodities are well supplied, the base metals appear to be closer to equilibrium and the capital starvation that the sector has endured will exacerbate the effect of any positive shift in the supply and demand dynamic. The number of active exploration companies has dwindled and the number of projects being developed into mines has also shrunk as capital has deserted the sector. Commodities are cyclical but it is worth noting that demand for most metals, agricultural products and energy, is still rising in real terms and these products cannot be substituted. After five years of a downturn, many commodities are currently gouging deep into the cost curve and a sign that the turn is close would be for unprofitable operations to close. Since the juniors cannot run unprofitably for long, we await leadership on this from the majors.

We are conscious of many producers eager to increase dividends, when conditions allow, and remain cognisant of the significance of dividends to shareholders. The fixed interest holdings are still central to the provision of a robust income account, but as the tide returns to the resource sector, equity opportunities will again provide attractive yields. Despite the current gloom in the sector, we remain certain of the cyclical nature of the resources sector and given its recent abandonment by generalist investors, are also positive that the turn will be marked not with a whimper but a roar. Will Smith and Ian Francis, New City Investment Managers, managers of City Natural Resources