

India growth story to continue in 2010



India's economy is expected to grow by at least 7.5% in the next financial year (to March 2011), whilst it is widely expected that interest rates will go up modestly in 2010 with GDP growth showing a robust recovery.

Sam Mahtani, Emerging Equities fund manager at F&C expects that the Indian markets will make further progress during 2010, however in the short term he believes that markets may consolidate and we could see a 5-10% correction with the current concerns on growth in China. He has aligned his Indian Investment Company portfolio with what he believes are the four most important investment themes/sectors in 2010 – pharmaceuticals, banking, metals and Information technology.

"I have been positive on Infrastructure since May 2004 but at the end of last year reduced emphasis on this theme and shifted the key theme in the portfolio to Information Technology (IT), as the infrastructure story is already reflected in the stock market valuations of the big infrastructure providers like BHEL. In IT we recently increased our position in Wipro, one of a number of positions in the technology sector set to benefit from a recover in spending during 2010. In addition, we continue to be overweight Business and IT consulting specialists Infosys and Tata Consultancy Services as we believe they are also going to benefit from increased technology spending this year" Mahtani commented.

Mahtani has also recently increased his position in Axis Bank in anticipation of a tightening in monetary policy, which should

have a positive impact on the banks which have a strong deposit franchise like Axis. He concluded: "We believe that 2010 will see a focus back on quality companies with strong balance sheets. The liquidity driven rally which was led by small and medium sized companies during 2009 has come to an end in my view."

Don't carp at GARP, says F&C's Longden

2009 will go down as a good year for continental European smaller company share prices, according to F&C's Crispin Longden, Head of Continental European Small Cap Equities.

Despite an inauspicious start, the asset class ended the year with strong gains, easily trouncing those produced by larger company shares. The benchmark HSBC Smaller Europe (ex UK) Index powered ahead by 55.1% in Euro total return terms while the larger capitalisation equivalent index – FTSE World Europe ex UK – returned 30.7%.

Nevertheless, Longden acknowledges that not all stocks were swept up in equal measure amidst the renewed enthusiasm for smaller European companies in 2009. "The sharp rally which began in early March was led by cyclical names, which experienced the steepest fall in the 2008 downturn. The predilection for these stocks was indiscriminate throughout much of the year with perceived lower quality companies - those with high debt levels and poor business fundamentals - registering the strongest gains.

Companies perceived as being higher quality - possessing strong balance sheets and historical earnings stability - were left behind. This seems illogical, but accurately reflects the positive impact of artificially low interest rates on indebted, weaker companies and their ability to streamline a bloated cost base and squeeze working capital to preserve profitability", he commented.

Longden anticipates that this trend will reverse in 2010 as the European economies begin a slow recovery. He believes that the easy gains in cyclical stocks have been made and that any resumption in demand may lead to escalating costs while rising interest rates expose still-fragile balance sheets.

Moreover, the heady price gains seen in 2009 have left many such stocks on rich valuations by historical standards.

Longden explained: "The chemicals sector as a whole is now trading almost 4 standard deviations above its historical norm measured back to 1981, while general industrials are more than 2 standard deviations above average. Significantly, both these sectors were still valued above the historical norm even at the depth of the most recent downturn. Typical growth sectors such as technology and pharmaceuticals, by contrast, continue to trade well below their historical average".

In F&C's continental European smaller company portfolios, Longden is currently overweight healthcare and information technology and underweight basic industries and cyclical services.

"An investment strategy focusing on value rather than growth has been in vogue throughout the recent stockmarket turbulence. Growth can now be obtained for a reasonable price. It is time for the GARP style of investment to stage a come-back", Longden concluded.

F&C Monthly Lunchtime Press Briefings

F&C's programme of monthly lunchtime press briefings continues in February and March with two very special events. Firstly, to celebrate Chinese New Year, F&C are hosting a lunch event at Imperial City restaurant, Royal Exchange, Cornhill on Monday 8th February. Mike Hanbury-Williams, F&C's Head of Pacific Equities, and Peter Dalglish, manager of Pacific Assets Trust, will be in attendance to discuss the outlook for China and Asia. Secondly, March 24th sees the launch of the annual Responsible Investor Report which provides key trends in our shareholder votes across areas such as remuneration and capital structures along with an outlook 2010 'hot spots'. To book your place at either event, please contact Jennifer Donohoe by email at Jennifer.Donohoe@fandc.com. Further events will be announced shortly.

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