

## Spiralling gold reaches \$1,000 per ounce as influence of dollar ebbs



According to F&C market strategist Ted Scott, the recent strength in the price of gold – which is testing an all-time high at around \$1000 per ounce – is something of a paradox given signs of an emerging global economic recovery and soaring equity markets. Gold is usually seen as a safe haven asset in uncertain times that performs well when investor appetite for risk dries up. "What this is telling us is that notwithstanding the beckoning recovery, there is still a lot of fear and scepticism regarding future growth and, in particular, there is a heightened risk of inflation. Gold is therefore retaining its lustre as a 'store of value' that can be reliably saved and retrieved," said Scott.

The strength also reflects increasing disquiet about the role of the US dollar as the world's leading reserve currency following the credit crisis, particularly from countries with large trade surpluses that have invested in US Treasury Bonds such as China.

"The US dollar's weakness has established a clear link with the ascent of the gold price as China has been reducing holdings in US Treasury Bonds and part reinvesting in gold reserves. In fact the Chinese have been lobbying for an alternative reserve currency and have proposed a paper 'gold standard' to the International Monetary Fund. Although this is unlikely to happen, in my view the dollar will probably not regain its old status as the pre-eminent reserve currency because of the reducing importance of the US in a global context as economic power shifts Eastward," said Scott.

It is noteworthy that despite the impact of the recession reducing demand for jewellery and industry by 20%, this is more than offset by an estimated 46% increase in investment demand for gold. Scott believes that despite the recent strength, the precious metal could therefore continue to remain buoyant even in a recovery as well as providing a hedge against inflation which he regards as a real risk from quantitative easing. The risk to this scenario would be a re-emergence of the US

dollar as a "safe haven" currency but Scott believes this unlikely give current macro policies.

*For a full copy of Ted Scott's paper "Gold reaches \$1,000 – but what is this telling us?" contact*

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### Global Convertibles fund moves to balanced profile

F&C Global Convertible Bond Fund has moved back to a 'balanced' profile as conditions normalise in the convertibles market. After an unprecedented sell-off in the second half of 2008, positive momentum has returned to the market and convertible valuations have benefited to a great extent from rising equity markets as well as tightening credit spreads, in particular since March.

Anja Eijking, manager of the Luxembourg Sicav, said the pricing of the underlying shares was likely to be a greater influence on convertibles going forward than the tightening of credit spreads, which has been an important driver for returns in recent months. Since the lows of the equity markets in March, many convertibles have been issued by good quality companies. New issues have thus been priced off low share price levels with low conversion prices and relatively high coupons, offering compelling long term investment opportunities. Recovering share prices and new issues have driven the move back into 'balanced' convertibles, which are those that are expected to participate in 40-50% of the upside movement in the underlying shares, but with limited downside if the shares fall in value.

"By focusing on the balanced part of the market, the best advantage is taken of the asymmetrical risk (limited)/reward (unlimited) profile that convertibles offer," said Eijking.

Year-to-date the fund, which has a diversified portfolio holding typically 150-200 names, has returned 25.95% net of fees, putting it 4.8% ahead of its benchmark, the UBS Customised Global Focus index (source: F&C, period to 31 August 2009).

### Investors voice carbon emission concerns

With just weeks to go till the crucial Copenhagen negotiations on climate change, attempts inject fresh momentum into a global deal during UN meetings in New York are in danger of disappointing despite business speaking with an increasingly common voice.

Vicki Bakhshi, Associate Director of Governance & Sustainable Investment at

F&C and former researcher on the Stern Review, said "Business and investors have made their views very clear. Investors responsible for some \$13 trillion of assets called for a clear policy framework that will commit to a shift towards a low carbon economy. This will enable them to unlock billions of investment to support new technologies. Over 600 companies have also signed a statement highlighting how clear and consistent policy will drive innovation and opportunity to make a low-carbon global economy achievable. F&C was active in the development and promotion of both statements with our CEO personally writing to 360 companies, 60 of whom have put their name to the Copenhagen Communiqué."

The big news of the week on climate change has been China signalling that it is prepared to take a tougher stance on emission reductions. China had already set out ambitious policies for a major scaling up of clean energy and for improving energy efficiency. Now they are willing to take on short-term targets for economy-wide carbon intensity, thought have not set out specific numbers.

"The Chinese position marks an important shift but overall, levels of commitment from governments still fall short of what is needed. The clock is ticking and everyone is waiting for everyone else to make a move. A breakthrough is needed," said Bakhshi.

### Monthly Lunchtime Press Briefings

F&C are hosting a lunchtime press briefing on 20<sup>th</sup> November, focusing on Investment Trusts. Simon Cordery, Head of Investor Relations for investment trusts at F&C will give a general overview of the sector and Peter Hewitt, manager of F&C Managed Portfolio Trust, will consider the outlook for the sector, focusing on short-term opportunities. To book your place at the Investment Trust Briefing, contact Sarah Godfrey on 020 7011 4215 or [sarah.godfrey@fandc.com](mailto:sarah.godfrey@fandc.com).

Further seminars in the series are planned 11 November (Fixed Income); 25 November (Economic and market outlook for 25 November) and 13 January (Multi-Manager).

### House of Commons event

F&C is holding an afternoon ethical investment conference on 7<sup>th</sup> October at the Palace of Westminster followed by a reception. The event is being sponsored by Mark Field, Member of Parliament for the Cities of London & Westminster.

For further details on the event please contact [Paula.Garrido@fandc.com](mailto:Paula.Garrido@fandc.com).

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