

## No sign of recovery for UK equities yet, says F&C's Stanley



In response to increasingly negative headlines on the UK economy, Catherine Stanley, manager of the F&C UK Dynamic Fund, believes there will be no respite just yet. "The downturn began with the credit crunch, but is now led by the consumer. The UK is more property focused than many other developed world countries and any negativity in this sector naturally impacts on the wider economy. In particular, consumer spending power has been enhanced in recent years by re-mortgaging and equity release schemes; these practices were unsustainable long term and will not be widely available again for some time".

Stanley believes that this week's government proposals to stabilise the property market will have little effect. "It shows no sign of improving and, whilst some of government responses will benefit individual cases, it is unlikely any difference to the housing market as a whole will be achievable".

She continues "Much has been made of the purported squeeze on the consumer's purse but in reality the real pressure has only just begun – food prices look set to rise further and the big energy bills will not be evident for several months yet. Although headline consumer spending data has not been fantastic, we anticipate these numbers will deteriorate further and there is no doubt that economic figures will worsen".

The latest OECD figures support the belief that a technical recession is likely and, although unemployment is still relatively low, it is likely to increase and "for most people it will feel like a recession" says Stanley. "Although never welcome, it is natural for economies to experience periods of correction after a phase of strong growth".

Stanley concedes the fall of Sterling is undoubtedly more bad news for consumers but not necessarily negative for all. "As companies

are more geographically diverse, currency movements may not necessarily be a bad thing. Although the slide of sterling against the dollar undoubtedly impacts retailers who purchase in this currency, the flipside is that it may help industrial companies selling overseas where currency has been a negative for the last few years."

The weak stock market has anticipated these conditions for some time but recently there has been a slow shift towards value and cyclical recovery plays. "Investors are still reticent to buy defensive stocks as these seem expensive and there have been bounces in house builders and some of the cyclical sectors. However, this has been a slow shift and there is no sign yet that the market is ready to turn".

### Insurers in the eye of the storm

With Gustav down and Hanna, Ivan and Josephine still to go, the 2008 hurricane season threatens another year of big catastrophe payouts. Post-Gustav claims could reach \$10 billion - but with US officials predicting a further 14-18 tropical storms this season, versus the historical average of 10, the insurance bill may yet top the \$30 billion paid out last year. Alexis Krajieski, Associate Director of Governance & Sustainable Investment at F&C, said: "The latest research indicates the past decade has been the hottest in the northern hemisphere in at least 1,300 years, and these extreme global weather events bear this out. This week's devastation in the US and Caribbean is a reminder of how vital it is for insurance companies to protect themselves against the rising cost of claims".

Krajieski says insurers have been slow off the mark and urgently need to develop climate change strategies. "A stable and efficient insurance sector provides vital underpinning to society and the economy by allowing consumers and businesses to pool risks, and thereby make investments they could not otherwise afford. But the system is under threat: the real cost of insurance cover is not necessarily reflected in the premiums insurers have been charging, because climate change means the past is no longer a reliable guide to the future".

"Some insurers have responded in the US, for example by reducing premiums for customers who install flood defences on their homes, but several major US insurers have simply withdrawn from high-risk areas, leaving the state to step in. By

contrast, in the UK, the industry has successfully engaged the government to shore up flood defences and allow flexibility in pricing to reflect underlying risk."

Last autumn, F&C issued a report - '*In the Front Line: The insurance industry's response to climate change*' - which coincided with 38 companies pledging to take action on climate change through the ClimateWise principles.

"The past year has seen some improvements, particularly with some larger European and US players developing climate risk strategies" says Krajieski. "But, globally the industry has yet to respond sufficiently."

Krajieski concludes: "Insurers are in real danger of becoming the victims of climate change. They need to act now and play a key role in shaping regulatory policy, so that the industry as a whole can adapt to the challenge posed by climate change and continue to fulfil its core function of enabling customers to protect their assets at the right price."

### Falling oil prices eases inflation pressure

The recent fall in the price of oil and other commodities is good news for the markets as it eases inflationary pressures, according to Jeremy Tighe, manager of the Foreign & Colonial Investment Trust.

He commented: "Not everyone feels the same as there is an argument that the fall in oil prices is a result of collapsing demand as the world slumps into recession. Although I can see the logic behind this view, I am more optimistic," he explained

Tighe believes that the biggest problem facing the global economy is still the continuing effect of the credit crunch. The most effective way for central banks to deal with the aftermath of the credit crunch is to cut interest rates. However, with the oil and other commodity prices rising so fast, central banks have been nervous about the effects that rate cuts could have on inflation.

"The fall in the oil price eases these inflationary concerns. To the extent that it reflects a slowdown in demand - caused by weaker economic activity and/or more efforts to save energy - then that itself will ease inflationary pressures even further," he explained. "This means interest rates could come down further and faster than expected a few weeks ago and this will encourage equity and bond markets. However, while the global outlook is improving the UK economy continues to struggle. The recent fall in the pound has made the problems worse".

Press Contact: +44 (0)20 7011 4600

Jason Hollands  
Tel: +44 20 7011 4168  
[jason.hollands@fandc.com](mailto:jason.hollands@fandc.com)

Paula Garrido  
Tel: +44 20 7011 4190  
[paula.garrido@fandc.com](mailto:paula.garrido@fandc.com)

Jennifer Donohoe  
+44 20 7011 5017  
[jennifer.donohoe@fandc.com](mailto:jennifer.donohoe@fandc.com)

Véronique Sant  
Tel: +44 20 7011 4278  
[veronique.sant@fandc.com](mailto:veronique.sant@fandc.com)