RAM Capital
WEALTH WORKING

MARKET COMMENT

March 2011

March was the month of negative headlines. Japan had the biggest disaster since WWII with a combination of earthquake, tsunami and radiation threat. Nikkei 225 tumbled more than 20% and recovered half of it within 10 days after the tragedy. There are many different approaches among economists how this tragedy would affect the country. We still want to wait and get more news to evaluate the situation.

The other headlines we focused on were global inflation threat and MENA crisis. Today's question is that "Is it late or early to deal with the inflation?". There is not any easy answer to that. Central Banks' (CBs) policies have been inflationary to avoid the deflation since the beginning of the crisis in 2008. There is a big chance that CBs could be late to withdraw these policies and create inflation. However, for the developed countries today's inflation is in line with or lower than CBs target inflation. As always, inflation expectations are important. Since the market start to worry about the future inflation and try to deal with it, the realization of inflation is becoming unlikely. For example, the reaction in EUR money market rates after Trichet seemed to be hawkish on January 13 meeting was significant. We believe that, in the Developed World, the inflation would not be problem until we see wage increase pressures (in Germany we see some pressures). Today, it seems we are not close to this scenario. Also, we believe that Europe still would be too busy on fiscal policy and peripherals problems. For some Emerging Markets Countries, the situation is different. Like China and India, CB already started to hike rates and increase reserve requirements along with other ones. So this year one of the important topics would be inflation for sure.

The market was startled with the developments in Middle East & North Africa (MENA). Actually, the situation in MENA got really ugly since it started. Especially, in Libya the situation became so bad that UN agreed on intervention. It seems these developments would be concern to the financial markets especially for oil for the rest of the year.

Nevertheless, the stock markets really held well, or recovered quickly against all that negative headlines. Although swings up to 6% took place within the month, the S&P500 index ended the month above the level where it started.

In March, we were the buyers of Developed Countries' equities on any weakness. Credits seemed to be expensive with current risk/return. Also, we stay away from longer duration as there is the risk that benchmark rates might price the inflation expectations. This situation in credits is another reason why we increase our exposure in equities. On equity front, we still do not invest to EM as we think the valuations are vulnerable for the short term. We still like commodity space, especially precious metals and soft commodities. We believe that time has come to take some profits on oil positions after the big rally. However, we might consider reinvesting if there happens a good correction.