RAM Capital
WEALTH WORKING

NEWSLETTER

Market Comments

April 2012

Global Economy:

After better than expected global growth in the first quarter, we are keeping an eye on many trends in the second quarter especially manufacturing surveys and credit growth. In our opinion, while global economy is continuing to muddle through, Eurozone seems to be heading into recession. Our base case scenario, US would outperform among developed countries. Although China would cool down, Emerging Markets could continue to show elevated growth levels. However, we remain cautious about the global growth. The monetary policy tightening last year in Emerging Markets (EM) because of inflationary pressures and lackluster growth in developed countries, combined with Eurozone debt fears made us to suggest the worst is not over for global growth.

US: The overall level of credit has fallen to the levels of 3rd Quarter 2007 levels. Although financial sector debt is part of overall deleveraging, there has been significant non-financial deleveraging in the last four years in relation to GDP. However, consumer credit shows some signs of picking up. In our opinion, this is due to better employment conditions. In addition to this, business credit growth reached its highest levels since 3rd Quarter 2008. ISM Manufacturing survey in US continues to show expansionary environment as well as ISM Nonmanufacturing survey suggests big jump in the first quarter. FED seems to continue its business friendly monetary policy for as long as it takes. Taken together, improving credit markets and employment conditions, expansionary ISM surveys, and support from FED make us to expect US over-performing the rest of the developed markets. In our opinion, the growth would not be extraordinary even with these conditions mainly because of debt fears coming from Eurozone. We expect US Growth to be around 2%-2.5% in 2012.

Eurozone: Despite ECB intervention (2 LTROs summing up to EUR 1 trillion), credit growth in the Eurozone is likely to continue to deteriorate. The deterioration would mostly take place in countries such as Greece, Ireland, Portugal, Spain and Italy whereas Germany and France could show better figures. Purchasing Managers Indices (PMI) are continuing to show downbeat macroeconomic environment. For March, Eurozone manufacturing PMI fell to 47.7 where Germany's came down from 50.2 (February) to 48.1. Composite Eurozone PMI, which includes service sector activity, fell to 48.7 from 49.3. Combination of deterioration credit markets and PMI data suggest that macroeconomic recovery would be slow even though ECB seems to stabilize the financial sector crisis. We expect Eurozone Growth to be around negative 0.2%-0.7% in 2012

Emerging Markets: Latest data from China continue to confirm our expectation of slowing growth in China. The flash HSBC manufacturing PMI reading out of China came 48.1 compared to 49.6 print in February. However, inflationary pressures are dissipating amid the weaker global growth outlook. With slowdown in economic growth and easing inflationary pressures, central banks (especially in EM) are gradually shifting back towards a more dovish tone. We think Bank of China also would be one of these dovish central banks. We expect this approach from central banks would help the growth in EM especially going into 2013. We expect to EM Growth to be around 5% in 2012.

Asset Class Expectations:

Equities: After a big rally in equities, we expect a pullback and then sideways in the near term. However, we are becoming cautiously bullish on developed market equities especially US, UK and Germany. The reason behind our expectation is mainly continuation of accommodative monetary policy approach from major central banks, the realization of Eurozone problems and somehow the pricing of these risks by the markets. While US is showing gradual improvement, corporate profit remain solid, and earnings multiples have the potential for further expansion. Also, the medium term outlook for EM equities looks favorable mainly because the central banks in that region are shifting back towards a more dovish tone. However, the markets are not pricing the worst case scenario so this is why we are cautiously bullish.

Fixed Income: Although we believe that US, UK and Germany government debt (especially long term) would have already reached their top levels in terms of price and from here the only way for yields is up, this process could take longer because of Eurozone debt fears as well as global growth downward risk. We expect US Yield curve to steepen. We continue to see opportunities in US and EUR corporate bonds especially in EM relative to US, UK and Germany government debt. However, because of the risks at the markets we suggest a blended portfolio with High Grade names is also involved.

FX: We still like *US Dollar* against *Euro* given the fact that US macroeconomic outperformance and Eurozone lingering debt problems. We expect EUR/USD would test 1.26 levels within 2012. In our opinion, spike in global oil prices would help *Russian Ruble*. We don't like high current account deficit countries' currencies such as *Turkish Lira*. Mounting balance of payments and capital flight would test higher USD/Ukrainian Hryvnia. We think *Singapore Dollar* is undervalued against US Dollar on the fact that it is a regional safe haven currency. Even *Taiwanese Dollar* is exposed to China slowdown; we expect gradually appreciation against US Dollar after a pullback. We think *Australian Dollar* would be affected from China slowdown and domestic property weakness and gradually depreciate against US Dollar. Latest developments suggest capital flight in Argentina and higher USD/Argentine Peso.

Commodities:

Since we don’t expect another round of quantitative easing (QE) in US and we forecast China is slowing down, in general we believe commodity markets look weak on a short term basis.

Grains & Softs: Almost all of the commodities gradually corrected since Q1 of 2011, we expect overall weakness to stay for 2012. Even though there was a bounce back from the lows, we believe there could be test of lows again this year.

Oil & Metals: Oil remains one of our top picks as an outperformer in the commodity complex. It seems supply would remain tight as China demand is resilient and Europeans are substituting away from Iranian crude. While Aluminum prices are looking weak, Cooper seems to be holding well because of LME inventories having declined to low levels not seen since July 2009. We still expect the demand for copper would disappoint over 2012. Gold is the trickiest one at the moment. As we mentioned, we don’t expect QE in US which has been feeding Gold prices for the last 4 years. However, we think FED would always keep this option alive in order to support the fragile economic environment. Without QE, where the Gold prices would go is a big question. However, we still think the world is going through huge deleveraging process and this would take longer than the markets expect. In the light of these, central banks all around the world continue their loose monetary policy and this would be sufficient to sustain the uptrend in gold prices. The risk to this statement is better than expected US recovery and this leads US away from QE.

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