PRESS RELEASE

"Two steps forward, one step backward"

Collins Stewart Wealth Management expects global growth to continue to recover, albeit at a slower pace

- **Developments in the euro region have regrettably overshadowed what has remained a generally supportive macro-economic environment**
- **We continue to feel that there are many better investment opportunities than lending to the UK government for an extended period**
- **We remain firm believers in the Asian and emerging market growth story**
- **Investing in technology and healthcare are now alternative ways of capitalising on the superior growth profile of Asia**
- **Equity market valuations are not overly demanding at current levels**
- **We cannot rule out a re-test of recent stockmarket lows, before further gains are made and we do not believe that a broad "double-dip" recession is the most likely outcome**

London, Guernsey, Isle of Man, Jersey and Geneva – 21st July 2010:

Commenting on the current global investment outlook, Nigel Cuming, Chief Investment Officer, at Collins Stewart Wealth Management, said:

They think it's (eur)over. Financial markets were undoubtedly driven by developments in the eurozone during the second quarter, as Greece's precarious financial position became sufficiently untenable to finally prompt policymakers to intervene in an attempt to restore some form of order. The rescue packages only provided some short-lived relief. However attention quickly shifted to the concerns over the fragility of the European banking system. Ultimately, investors are not yet convinced that Greece will not default and fear that this could trigger broader contagion throughout the region. The total sovereign debt exposure to troubled borrowers by European banks is large in absolute terms, albeit relatively moderate in the context of the previous subprime meltdown. BCA estimate that, in a worst case scenario, losses at European banks could total $400bn, a sizeable sum, but considerably less than the c.$1 trillion cost of the whole 2008/2009 crisis.

A Greek default would have far wider repercussions for financial markets and the European region as a whole than would be fundamentally justified by its 2% contribution to European GDP. Some form of default or debt rescheduling does however seem inevitable, given that even if Greece does all that is required of it under the terms of the IMF program, gross debt to GDP is expected to rise from 115% in 2009, to 149% by 2012. Even then, one must be sceptical that it will be politically possible to implement the necessary austerity measures and we have grave doubts that the Greek government will succeed in avoiding default .Ultimately, we believe that the euro will survive and it is difficult to envisage how the Greeks (let alone Spain, Portugal and Italy) might engineer a withdrawal from the euro and the adoption of some form of "new Greek drachma" given that this would inevitably lead to a collapse of the Greek banking system.

Developments in the euro region have regrettably overshadowed what has remained a generally supportive macro-economic environment. Whilst in Europe the growth outlook was not particularly inspiring, even before the sovereign debt crisis erupted, **conditions across the rest of the world continue to give little cause for concern.** In terms of the former, the October 2009

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World Economic Outlook produced by the IMF, forecast euro area growth of only 0.3% in 2010 and 1.3% in 2011. Whilst growth might be further negatively impacted by constraints within many of the "Club-Med" economies**, the substantial decline in the value of the euro is providing an offsetting real and meaningful boost, especially to the export sensitive German economy.**

Elsewhere, while some softer economic data releases have been issued of late, our central contention remains that this is likely no more than a moderation in the rate of expansion and this will ultimately allow the global economy to settle into a steadier, if somewhat slower, growth path. Certainly ISM reports in the US remain strong, household income growth is robust and consumer spending is supportive. Personal income levels in the US, minus government transfer payments (offsetting the positive effect which may have been provided simply through the government's attempts to directly support households), rose in April by the biggest margin since 2008.

Ultimately, sovereign debt concerns outweighed other supportive factors during the quarter with the consequence that most "risk assets" lost ground over the three month period as a whole. **Fundamentally, we continue to find it extremely difficult to reconcile investors' periodic risk aversion with a flight into UK government bonds, particularly given the UK's still parlous financial position**. Nonetheless, such are investors' well rehearsed moves that nothing short of default will likely impact this correlation. However, **we continue to feel that there are many better investment opportunities than lending to the UK government for an extended period**.

We believe that China's pre-emptive and pro-active policy tightening measures, implemented in an attempt to cool the pace of expansion in one sector of a booming economy, is in reality an extremely positive development, given that it reduces both the possibility of an asset price bubble and the probability of more robust action having to be taken at a later date. However, market participants seem to have used these positive developments as an excuse to mark down prices.

We remain firm believers in the Asian and emerging market growth story, but similarly we must recognise that this is no longer as contrarian a position as it once was and particularly when we maintained this weighting at the beginning of 2009. **It is entirely possible that there are now alternative ways of capitalising on the superior growth profile of Asia** over and above purely maintaining a dedicated exposure to the region's stockmarkets. **Already our thoughts have turned to sectors such as technology**, where our research would suggest that there is considerable pent-up demand for tech products. **Also in terms of healthcare, having invested in this area in the past albeit for somewhat different reasons, we can also easily identify reasons why these stocks might also benefit from increased expenditure towards this area across the developing world.** As a percentage of GDP, healthcare spending accounts for just 5% in China, but will clearly grow meaningfully as the healthcare insurance program is extended to cover 90% of the entire Chinese population by 2011, up from under 20% of urban employees in 2001.

Notwithstanding the short term volatility in share prices, we believe that the backdrop for stockmarket investment remains favourable. This confidence hinges on 3 key supporting factors. We have already touched on the first of these – continued economic expansion – and **do not believe that a broad "double-dip" recession is the most likely outcome. W**hilst the most dynamic phase of the expansion may have passed, there remains a palpable underlying strength to the global recovery which should support share prices moving forward.

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The second and equally important factor is corporate earnings growth; companies have continued to positively surprise on the upside. Over 80% of US companies reporting first quarter results beat market expectations. Meanwhile, the US corporate sector is highly cash generative, which could support increased dividend payouts, share buybacks, M&A activity and further increases in the capital spending cycle.

Finally, it is unlikely that inflation will accelerate sharply in the near term, which will give central banks sufficient comfort in keeping interest rates at, or near, their current levels. In addition, monetary authorities will be aware that a significant level of fiscal retrenchment must take place across much of the western world in order to prevent public debt levels spiralling ever further out of control. Increased taxation and reduced government spending represent a real and appreciable fiscal drag and, as well as the deflationary impact that this will have, central banks will be wary of pushing interest rates too high too quickly lest this action induces a sharp growth slowdown.
In amalgamation, this combination of economic expansion, growth in corporate profitability and supportive liquidity, provides a powerful underpinning for equity prices and would argue for share prices moving higher over the remainder of the year.

As a consequence, we have not initiated a wholesale change in our investment strategy. Instead, we have looked to gently trim stocks, sectors and markets into strength, whilst continuing to try and identify areas and assets which have not yet moved to reflect the underlying fundamental reality.

The current market situation can be described as a case of "two steps forward, one step backward," as, we expect global growth to continue to recover, albeit at a slow pace. Equity market valuations are not overly demanding at current levels and our central contention remains that equity markets and the price of general risk assets will move higher over the remainder of this year. However, in the near term the European debt situation may continue to make its effects felt and **we cannot rule out a re-test of recent stockmarket lows, before further gains are made**. Over the much longer term there remains meaningful scope to generate positive returns and a satisfying number of investment opportunities at the current time.

ENDS

Notes to Editors

Collins Stewart Wealth Management ("CSWM") is an award winning investment manager and stockbroker committed to providing private clients, intermediaries and charities with a broad array of independent wealth management services. CSWM manages and administers £6.7bn[1] of assets on behalf of over 9,000 clients managed in London, Guernsey, Jersey, Isle of Man and Geneva. More information on CSWM is available at www.collinsstewartwealth.com.
[1] as at 30/04/2010

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*** AWARDS FOR COLLINS STEWART WEALTH MANAGEMENT**

Discretionary Portfolio Management

Daily Telegraph Wealth Management Awards

Best Discretionary Service	2009 Winner
	2008 Runner-up
	2007 Winner

Money Marketing Awards

Best Discretionary Adviser	2009 Winner

Financial Times/ Investors Chronicle Wealth Management Awards

Best Investment Manager	2008 shortlisted
Best Charity Manager	2008 shortlisted
Best Cautious Fund Manager	2008 shortlisted

Charity Times Awards

Best Investment Manager	2009 shortlisted
	2008 shortlisted
Best Professional Services	2007 shortlisted

Private Asset Managers (PAM) Awards

Best Investment Performance: Absolute Return	2008 shortlisted

Advisory Stockbroking

Financial Times/ Investors Chronicle Investment Awards

Best Advisory Stockbroker	2009 Winner
Best for Advisory	2008 Winner (Gold)
Best for International Shares	2008 Winner (Gold)

Shares Magazine Awards

Best Advisory Stockbroker	2008 Winner

Customer Service & Communication

Financial Times/ Investors Chronicle Investment Awards

Best Stockbroker for Customer Service	2009 Winner
	2008 Winner (Silver)
	2007 Winner
Best for Communication	2008 Winner (Silver)
Best Advisory Stockbroker Cost	2007 Winner

Daily Telegraph Wealth Management Awards

Best Marketing Materials	2008 Winner