Global Market Outlook

informed RCM

30th September 2011

- Global growth is stalling due to the US and Europe but remains relatively strong in Emerging Markets, underpinned by rising per capita incomes and on-going infrastructure investment. Loose monetary policy in the US, as measured by nominal short interest rates minus nominal GDP growth, suggests that the economy will not slip back into recession. Core Europe is at more risk as a number of periphery economies are already contracting and interest rates remain higher.

- Ultimately, however, growth is being weighed upon by excessive levels of both public and private debt in the developed world, and a multi-year deleveraging process may in fact be required before sustainable levels are reached. Our base case scenario is that we will be in a low growth, low interest rate environment for some time, although we remain wary of further downside risks if European leaders fail to exercise the necessary political will to credibly resolve the banking and sovereign debt crisis.

- Despite these macroeconomic uncertainties, equity markets look reasonably attractive. The recent selloff has compressed valuations, which should be supportive of long-term returns. Cyclically adjusted Price-to-Earnings ratios in Europe and the US are in the low double digits and the dividend yield on European stocks is around 4%. Corporate balance sheets are in good shape and should support dividend growth going forward. Market valuations already reflect a great deal of uncertainty and there are considerable risks to the upside if a resolution to the problems in Europe is not found in the near future.

Source: RCM as at 30 September 2011

RCM (UK) Limited, 155 Bishopsgate, London EC2M 3AD
T: +44 (0)20 7859 9000 F: +44 (0)20 7638 3508 www.rcm.com