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LONDON

No reason to anticipate a double-dip recession in the US, says RCM

Stefan Hofrichter, Chief Economist at RCM, a company of Allianz Global Investors, outlines the evidence against a double-dip recession in the US at this juncture:

“The OECD leading indicators clearly indicate a slowing of the recovery, but in our view they do not signify a looming recession. For most developed countries, their signal is consistent with below trend growth - a scenario that RCM has been expecting. For Emerging Markets, OECD leading indicators also signal a slowdown in the recovery, but still highlight above trend growth. At the moment only the Economic Cycle Research Institute index is close to recession levels however this index must be interpreted with caution as recently it has shown unusually high volatility.

“The Institute of Supply Management indices¹ in the US have only recently started to roll over and they are way above the expansion line of 50 in both the manufacturing and service sectors. The index typically has to dive below 45 for a number of subsequent periods in order to signify a recession.

Steep yield curves

“As in Japan, flatter yield curves and lower 10 or 30 year government bond yields might cap equity returns for some time. However, bond yields and yield curves move in sync with equity markets.

“A flattening of the curve would indicate a slowing of growth, but in the last 30 years we have never observed a steep yield curve ahead of a recession, and at the moment in the US the yield curve steepness is still close to the all-time high.

“For the US, we expect capital expenditure to support the recovery at a relatively slow pace. However, private consumption remains a question mark as the fiscal support packages cannot be prolonged continuously, whilst the housing market will not support consumer confidence in the near future. But neither credit supply and demand nor the recent stabilisation in money velocity – the latter reflecting the preference for cash amongst banks, households and companies – signal immediate deflation or a threat of recession.

“All in all, at this point in time, we see no reason to subscribe to a double-dip recession in the US or other regions. We are holding to the view of slower growth momentum in the second half of 2010, though.”

- Ends -

For more information

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Notes to Editors

1 – The Purchasing Managers Indices survey purchasing managers in various manufacturing sectors on different fields, namely, production level, new orders from customers, speed of supplier deliveries, inventories and employment level.

Respondents report either better, same or worse conditions than previous months, so giving a timely snapshot of the factory sector in the US.

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Photographs

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http://www.rcm.co.uk/press/04_fundmanagers.html

Awards

- RCM Highly Commended for Equities Manager of the Year, at the European Pensions awards 2010.
- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, CIO for US Equities, RCM.
- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.
- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.
- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.
- Allianz RCM Global EcoTrends Fund named winner Best Climate Change Investment fund 2008, by Holden & Partners/ Incisive Media.

About RCM (all data source RCM as at 31/03/10)

RCM is a global asset management company providing active investment strategies. The firm operates from six offices—San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney—with assets under management of over \$146 billion worldwide. At RCM we believe that by generating and exploiting an information advantage, we will be able to deliver superior and consistent investment results for the benefit of our clients—a philosophy we call RCM informed. RCM is a company of Allianz Global Investors, a pre-eminent global asset management group committed to helping clients achieve sustainable success. As a company of Allianz Global Investors, RCM offers a distinctive investment philosophy and culture, while benefiting from the scale and substantial resources of our parent; including business support, industry best-practices and financial investment.

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