



23 December 2008

EVERCORE PAN ASSET WISHES EVERYONE A MORE PROSPEROUS NEW YEAR...

BUT ADVISES INVESTORS OF THE BIG RISKS THAT STILL LURK IN WORLD MARKETS & THAT THE UK IS ONE OF THE RISKIEST PLACES TO INVEST

We say farewell to 2008 hoping that 2009 will be a lot better, but fear that it will start worse.

2008 has been a good year for Evercore Pan-Asset, as we have been remorselessly pessimistic about the prospects for the world economy. This has allowed us to offer advice to clients to stay in cash and other relatively safe investments, preserving capital whilst all about us crashes. It is still not what we would like to be saying, as like most investors we prefer to have something to be optimistic about.

According to the UK government forecasts, 2009 is going to be better. It foresees more pain in the first half, followed by recovery in the second half. On this analysis we are living through a sharp but normal cycle. The combination of low interest rates, the extra liquidity now being pumped in frantically to the banking system, and the fiscal stimulus, will start to raise order books and spirits in July. This would mean the prospects for equities will improve, making them a strong buy now.

A second scenario is a development of the Government's. If it is right, then there is a danger it is overdoing the monetary and fiscal loosening. The huge sums now being tipped in, coupled with low interest rates on both sides of the Atlantic, could begin a nasty period of future inflation, once we have lived through the remaining disinflation of the downswing in the first half of 2009. This would mean buy equities for the first part of the recovery, but be ready to bail out again when the authorities realise they have overdone the monetary treatment.

The third scenario is the one more people in the market believe. Many say this is not a normal cycle. The banks are badly damaged, so the extreme monetary changes are necessary but may not yet be sufficient to turn the economies round. Banks will need to carry on raising additional capital. They will report more losses on existing loanbooks, as the recession takes further toll on mortgage debt and corporate lending. It will take a massive monetary and fiscal stimulus to get over the huge losses and the savage forces of the downturn.

Property prices will fall further, corporate bankruptcies will increase and the world will live through several quarters more of pain, before resuming slow growth. There will be no early repeat of the credit explosion which powered the last decade of exciting world growth.



Press release

On this scenario there will be a bigger bubble in government bonds, as the flight to “quality” continues, and cautious investors look for something better than deposit rates geared to a fed rate of around zero. Gradually funds will be committed again to stronger companies through the corporate debt and equity markets, as recapitalisation proceeds, and as people start to see through the worst of the downturn.

So what do we recommend?

We suggest that investors needing long term growth and protection against possible future inflation should start to buy equities in the stronger economies, with additions in corporate bonds. The bonds backing companies that are not going bust are cheap, but there remains a period of uncertainty over company prospects during which some will go under. It should also be possible during the next six months to pick up some cheap inflation-linked stock, which will be friendless at a time of deflation, which could be a good insurance policy for the longer term. Investors seeking a positive return over inflation but not wanting much risk should stay cautious, and recognise that in the lower inflation year we are entering that also means lower nominal returns to do the job.

We still think the UK is one of the riskiest places to invest, given the very large deficits the private and public sectors are both running. We recommend placing more investment elsewhere in stronger economies backed by more fiscally prudent governments.

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Press release

Notes to editors

Evercore Pan-Asset Capital Management

Pan-Asset Capital Management was launched in early 2008, and in July 2008 announced a partnership with Evercore Partners. The company was set-up by three experienced investors: John Redwood (Conservative MP and former Director of Robert Fleming and NM Rothschild), the late Robert Brown (former Chief Executive of Sarasin Chiswell) and Christopher Aldous (former Chief Executive of Absolute Fund Management). Evercore Pan-Asset is unusual amongst asset managers in the UK in placing ETFs at the heart of its investment process. They have been joined by Guy Davies (former Head of Charities and Philanthropy at Barclays Wealth) who leads Evercore Pan-Asset's provision of asset allocation advisory and investment management services for charities.

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