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Evercore Pan-Asset  
Keeping it Simple

## Evercore Pan-Asset Press Release

***In its New Year message below Evercore Pan-Asset warns investors about the dangers of the large debt overhang in the UK. This boutique asset manager correctly called the crash of 2008, telling clients to be in cash, and then moved portfolios into equities and bonds in 2009, with the emphasis on Asian equity. They now think the state of the UK public finances means higher interest rates ahead at best, and at worst a nasty financing crisis.***

***They recommend starting 2010 with a balanced portfolio, with the exception that they are against any holdings in UK government bonds and prefer equities outside the UK.***

## New Year investors need Pacific Shift to avoid UK debt hangover

Farewell to the noughties. They will not be much mourned.

The decade opened in the UK by a relatively fresh government promising us an end to “boom and bust”. We were told we would be run prudently, keeping a watch on the borrowing.

The decade ended with the worst boom and bust cycle since the 1930s. It ended with bankers’ reputation in tatters, the UK government’s reputation for prudent finance and good management badly damaged, and the world community demanding more regulation after the worst regulatory failures of my lifetime. The new decade has a poor inheritance.

The world economy is likely to be dominated by two main themes. The first is the persistence of the trend to more and more success in the East, as manufacture, services and trade flow to and from Asia. This century will be the Pacific century, just as surely as the last was the Atlantic’s. The second will be the forced efforts of the West to tackle the debt mountains built up in the good years, and added to during the crash.

The huge imbalances of the world economy which contributed to the crash have not gone away. In some cases they are becoming worse. The result of the debt overhang should be lower growth for the West and therefore for the world as a whole. There may not be enough demand to sustain the highly aggressive export led growth models of China, Japan and Germany. In any exporters squeeze, brought on by weaker important demand elsewhere, China is likely to be the relative winner.

The large debt-ridden positions built up by the main western banks, with all the attendant positions in derivatives, options and complex financial products, have also not gone away. There has been some reduction in risk, and large new sums of capital have been pumped in by governments and by the markets. There will be a long and slow workout. The UK is making heavy weather of tackling the big problems of RBS. There are hidden dangers lurking in some continental European banks. There could be more grief from distressed property sectors on both sides of the Atlantic.

We think we have seen the best of the asset price recovery. Markets are discounting a useful recovery. Eastern markets, as we expected, have performed better, reflecting the better long term growth prospects. Western markets have moved on from trying to discount Armageddon. For the start of 2010 we remain fully invested, in a balanced portfolio of corporate bonds, growth market equities, property and commodities. We will reduce risks if and when we see world authorities cutting back too quickly on the large amounts of liquidity they have created, and moving too rapidly to the higher interest rates that may be round the corner.

If the authorities are successful in 2010 they will end quantitative easing, move to higher rates and allow growth to continue. The risks are on both sides of that careful balance. They could run the QE and low interest rates for too long, triggering another bout of inflation. Or they could strangle monetary growth too soon, and cause a further downwards movement in debt ridden economies. Either way we think the UK is at the risky end of the spectrum, with too much debt and too many difficulties.

We advise investors to avoid the gilts and UK equities. The UK public finances are in a very poor state. The failure of the Pre Budget report to spell out how the deficit will be tamed has started the legitimate market worries about how all the debt will be taken up once the Bank of England withdraws from the government bond market.

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- % To schedule an interview with John Redwood, please contact Hilary Power on 020-7398-5840.
  - % To see EPA's **new ETF publication**, "Big Picture Investing", please visit <http://www.pan-asset.co.uk/news-and-opinions-research-pub/big-picture-investing.htm>
  - % For John Redwood's twice-weekly blog please visit <http://www.pan-asset.co.uk/news-and-opinions-jr-comment.htm>

#### **Notes to editors**

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 asset allocation and index-tracking with 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 to charities.

#### **Media Enquiries**

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