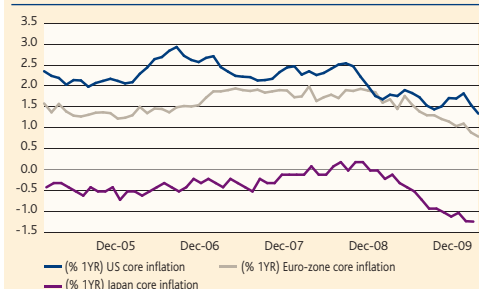


Global Investment Outlook

The monthly investment outlook from Aberdeen's multi-asset team

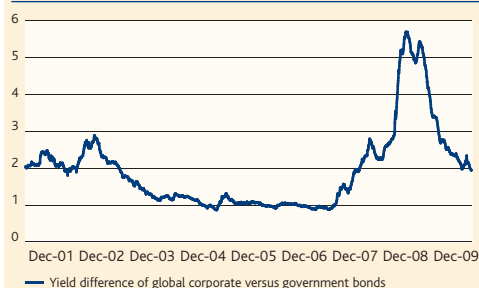


G7 core inflation is still trending down



Source: Factset, 23 March 2010

Global credit markets could still see modest spread compression



Source: Factset, 23 March 2010

Key forecasts	US	Japan	Euro-zone	UK	China	Global
GDP rolling						
12m forecast	2.6	1.0	0.8	1.5	9.7	2.4
Consensus	3.1	1.5	1.3	1.5	9.7	2.8
CPI rolling						
12m forecast ^A	1.8	-0.9	0.7	2.5	3.7	1.3
Consensus	2.3	-0.9	1.2	2.5	3.2	1.6
Current Base Rates	0 - 0.25	0.10	1.00	0.50	5.31 ^B	—
Monetary Policy (3m)	0.15	0.10	1.00	0.50	5.31 ^B	—
Monetary Policy (12m)	0.70	0.10	1.00	0.50	5.58 ^B	—
10 Yr bond Yields (12m)	4.00	1.66	3.50	4.50	n/a	—

^A core rate ^B PBOC 1 year Yuan Lending Rate

Source: Aberdeen Asset Managers Ltd

Asset allocation	Deviation ^C (%)
Equities	3.0
- UK	(1.0)
- US	0.0
- Japan	1.0
- Europe ex UK	1.0
- Asia	1.0
- Emerging Markets	1.0
Fixed Income	(3.0)
- Conventional	(2.0)
- Index Linked	(1.0)
Property	2.0
Cash	(2.0)

^C Deviation refers to a % over or underweight vs. our core multi-asset benchmark.

Source: Aberdeen Asset Managers Ltd.

Executive Summary

- Global growth still fiscally dependent leading to anxiety about 2011
- Budget deficits are a concern but corporate fundamentals becoming sounder
- Steady growth maintaining focus on policy stimulus withdrawal

Whilst anxiety surrounds the economic outlook for 2011 and beyond, a slowly improving environment should be sustained in the short term. Government stimulus is promoting activity which raises the question as to what happens when it is removed. Corporate fortunes though are improving, and this should present some respite for budget deficits and possibly ultimately the personal sector as unemployment stabilises.

Whilst Asian and emerging country economies are recovering rapidly through exports, the same cannot be said for the G7 as a whole. Within this group the US is proving the most robust as the personal sector re-adjusts its savings habits in a measured way. Longer term though, further deleveraging will mitigate the impact consumers may have on GDP. Elsewhere within the G7, the consumer is not as buoyant and investor pressure to reduce budget deficits is suppressing consumption. This is perpetuating growth imbalances between and within economic regions.

On the positive side, inflation is a long way from becoming an endemic problem as slack is still very much in evidence in both product and labour markets. Even in the Asian and emerging countries, inflationary pressure should not present too great a problem to overcome. Monetary policy therefore should remain generally accommodative even though investors may speculate about a change in stance as data continues to show improvement into the second half of the year.

Riskier assets should benefit from this monetary stance but frequent bouts of doubt will promote volatility, capping the extent to which markets rise each time. Near term we therefore continue to see a modestly rising trend within a broad trading range, capped by a level of 1200 - 1250 for the bellwether S&P500.

Mike Turner

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Global Investment Outlook

US is the mainstay of demand within the G7

Impending UK election is creating uncertainty

Japan desires a lower exchange rate

Core inflation rates are trending lower

Economic and Market Outlook

Global recovery continues to be driven by Asian and emerging country activity, with the developed world's contribution emanating mainly from the US. Most demand within the G7 is still fiscal stimulus dependent, but core inflation remains generally contained.

US

US growth accelerated to 5.9% in the final quarter of 2009, and this momentum should be sustained in H1 2010 as depicted by Institute of Supply Management (ISM) indices. Unemployment appears to be stabilising, but the savings rate is still inadequate in light of personal sector deleveraging, implying consumption will prove sub par in this cycle. Poor recent housing data could be indicative of this but perhaps is distorted by bad weather.

Europe Including UK

The Euro-zone economy lost momentum in Q409, but recent manufacturing orders indicate some revival. However high unemployment causes concern especially as government intervention prevented further job losses through short time working initiatives (for example in Germany). Labour market slack will prevent consumption from boosting domestic demand unless fiscal (tax) policies change.

This is unlikely for the region as a whole whilst peripheral countries are under pressure to tighten fiscally. At best we will see anaemic growth with clear divergence between core countries and the periphery.

The UK is not much different. Although growth is bottoming out, the resuscitation in housing could well be faltering as weak income growth and higher taxes hamper confidence. The weak pound will benefit exports but this is a small part of the economy suggesting little impact on overall activity. An election is due and the possibility of a hung parliament is creating uncertainty.

Japan

Japanese GDP for Q3 09 was revised down in an almost unprecedented fashion, and with poor income growth, excess inventory and a decline in public investment, the economy's recovery is destined to remain weak. Currency strength is a big impediment for exports, normally the catalyst for Japan's performance.

Asia and Emerging Economies

China remains robust even allowing for some consolidation following recent credit tightening. Elsewhere countries such as Singapore and Hong Kong should grow circa 5% or more as should Malaysia. Thailand will benefit from world trade but needs political stability to boost domestic demand.

Latin countries may grow slightly slower than 5% with Brazil an exception due to strong fixed investment. Eastern European prospects are more constrained due to the trade links with the Euro area, but fiscal accounts are in better shape across the EMEA region.

Commodities

Commodity markets, in particular oil and copper, still suffer from excess inventory, epitomised by the 'contango' shape of forward curves. Whilst higher prices may transpire longer term if the global economy experiences synchronised robust growth, we believe that materially higher prices will be thwarted near term by unsupportive fundamentals. Oil in fact could trade in a broad range of \$70pb - \$85pb.

Global output gaps are wide preventing core inflation rates from rising. With commodity prices not expected to appreciate to the degree experienced over the last year, headline inflation should once again converge with underlying inflation. The inflation experience is somewhat different in Asian economies, but even here we do not expect material problems.

Global Investment Outlook

Bond Yields, Currencies and Monetary Policy

The US Federal Reserve has reiterated its desire to keep rates low for an 'extended period'. The withdrawal of abnormal policies is progressing but if new data demonstrates continued recovery, the Federal Open Market operations Committee (FOMC) may alter this language before long. We do not expect any change to interest rates soon, but the chances of preparing markets for an eventual shift are rising. First though the complete removal of all unorthodox policy initiatives will be the priority.

The inability of UK nominal GDP to grow at 5% is expanding the gap between current and potential output. Despite recent worries over rising core and headline inflation we believe that the policy committee of the Bank of England is a long way from tightening base rates – potentially 2011. In fact further extension of Quantitative Easing (QE) is possible although unlikely.

The European Central Bank updated its growth and inflation forecasts in March, projecting both to persist below 2%. The insinuation is that policy could remain accommodative into 2011.

The fight with deflation has witnessed further liquidity injection by the Bank of Japan. Rates should remain at 0.1% for the foreseeable future, as this looks more like an attempt to loosen monetary conditions through exchange rate depreciation.

Monetary policy in Asia is set to tighten further. Recent higher inflation figures in both China and India will provoke further moves. In India real rates are substantially negative even after the recent 0.25% rise, whilst in China there is mounting external political pressure to revalue the currency. For the moment Premier Wen Jiabao dismisses this option insisting the yuan is not undervalued, indicating China's irritation at the public nature of criticism. Latin countries are also embarking on a tightening cycle whereas the EMEA area is less inclined to move given closer links with the Euro-zone.

We continue to expect US ten year treasuries to be range bound, with 4% - 4.25% being the top side of this range. Commercial banks are buying government bonds, replacing corporate loans (as companies seek to repay bank debt), and taking advantage of steep yield curves to rebuild capital. We believe commercial banks will replace QE in absorbing relentless supply.

Nevertheless sovereign credit status is a risk that is putting upwards pressure on real yields. Although we may be past the worst for concerns over Greece, sovereign spreads will remain volatile and problems will no doubt emerge elsewhere in due course.

This is in complete contrast to emerging countries where upgrades to ratings are in train such as in Indonesia. This better underpinning should continue to help the asset class in the medium term, but certain markets are getting expensive now.

February highlighted the variety of risks still prevailing in credit. With Central Banks beginning the process of ending their exceptional liquidity support for markets and concerns over the outlook for weaker sovereigns likely to continue for some time, we expect credit to remain volatile and the pace of further spread compression to be quite modest. However, credit fundamentals are improving with default rates likely having reached a peak in the first part of 2010. We still prefer financial issues over industrial, but analysis should focus on issue specific bond covenants as much as fundamental credit assessments.

The US dollar continues to strengthen as Greek debt woes affect the euro, and sterling suffers from the prospect of an indeterminate outcome in forthcoming elections. The pound is likely to weaken up until the election but does have the ability to correct once it is over. The most intriguing issue for currency markets in the near term remains the potential re-valuation of the yuan and the political repercussions of branding China a 'currency manipulator', something which is gaining momentum in the US congress.

Risks are rising of a change to the FOMC statement

Bank of Japan injects more liquidity into financial system

Sovereign credit worries have not disappeared

Tensions are rising over exchange rate competitiveness

Global Investment Outlook

Equities still in a broad consolidatory range

Rental growth in Global Real Estate still some way off

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Equity and real estate

The Q4 reporting season produced results which generally met or exceeded expectations on both revenues and profits. The swift shedding of unproductive labour (especially in the US) has enabled productivity and consequently profit margins to increase rapidly. In fact margins are the highest for several decades in some areas, and certainly unusually high for this stage of the cycle. Thus modest top line growth has been translating into robust earnings growth, surprising analysts. Profits growth forecasts of circa 25% in 2010 look achievable for the MSCI World index, but analysts are now revising forecasts upwards for 2011.

Free cash flow generation remains strong too as a result of low investment needs for capacity expansion purposes. Whilst there has been some focus on balance sheet strengthening, better cash generation has meant we have seen dividends restarted or increased along with more M&A activity, and this should be sustained.

Equity markets therefore have improving fundamentals, but investors remain anxious about the global macro-economic outlook in 2011 and beyond, and are sceptical of upwardly revised profits forecasts. Complementing this is the fear that policy stimulus is being removed in one form or another. Global liquidity will therefore be instrumental in assessing the performance of risk assets. The tightening in Asia and elsewhere in emerging countries will be a growing impediment to market progress and the dispersion of returns between these and other markets may continue narrowing.

However overall global liquidity is still abundant, promoted primarily by the G7. Although we do not foresee any shift in short term rates soon, the risks are heightened that markets worry about it, possibly prompted by change to the language of the regular FOMC statement.

This leads to our view that stocks consolidate within a broad range, bounded (for the S&P 500) by 1200-1250 at the top, but supported by 950-1000 at the lower end. In sum we have improving fundamentals but encroaching withdrawal of monetary support. Consolidation is usually the reaction when this happens.

As far as relative performance is concerned, our judgement is that global liquidity will be the greater influence on Asian and emerging regions but our conviction on this is not great, particularly as protectionism is a growing threat from political posturing surrounding exchange rates.

Within the real estate arena, early 2010 has seen a slowdown in the pace of capital value appreciation in the UK market but overall returns are still running at close to 2% per month compared to over 3% in the fourth quarter of 2009. Institutional and retail appetite for commercial real estate has come back strongly and we expect UK values to continue rising in the short-term as new money is placed mostly into the prime end of the market, which is supply constrained.

Valuations globally have followed the UK's lead with pricing for prime assets turning higher (though to a lesser extent) in the US, Western Europe ex UK and Asia, against a background of high property yields in comparison to other asset classes. Lending activity is also thawing but funding is only available on better terms for the highest quality income producing assets. The availability of finance for property with short leases and poorer quality tenants is still very difficult to obtain. In the near-term we see some risks from a tightening of monetary policy and maturing balance sheet and CMBS loans, potentially exposing values to a double-dip next year. However these are not yet substantial.

Occupier markets are weak globally with the notable exception of central London and Hong Kong office markets where vacancy rates are declining. A standstill in the speculative development bodes well for wider property market rents once occupier demand strengthens in late 2011/2012.