# MANAGING WEALTH *EXPRESS*

**31 JANUARY 2012**

UK economic growth for the last quarter of 2011 compared with the third quarter was -0.2%. Whilst this is disappointing, it is not a surprise against a backdrop of public sector cuts and the economic contraction of our largest trading partner, the eurozone.

It is likely to be a defining year for the eurozone and, by implication, the global economy. All of Europe will have to make difficult decisions about austerity packages and, no less difficult, how to cooperate to ensure the survival of the euro. This is already developing into a political battlefield, and the outcome is likely to materially change the lives of millions across the eurozone.

The more successfully this is achieved, the lower interest rates and bond yields will remain, continuing to present investment challenges for those who need to achieve investment returns higher than bank rates, but who are reluctant to take risks. Therefore, we will be watching the political and economic arenas with great care and will keep our clients informed and advised.

Bob Woods
Chairman

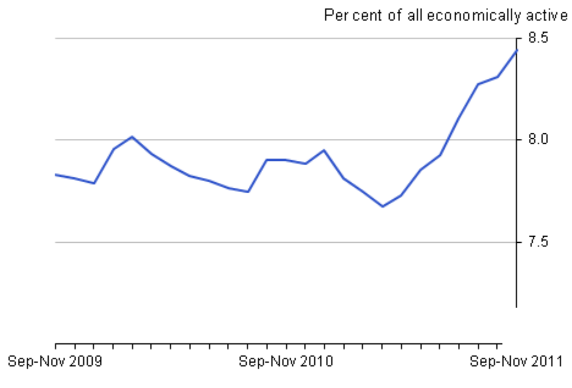
Set out below is an update on some of the more current salient issues:

## UK

Petrol, gas and clothing prices have largely contributed to the downward pressure on UK inflation with December's CPI figure falling to 4.2% from 4.8% in November. It was the sharpest drop in the annual rate since April 2009, when the economy was deep in recession. The unemployment rate rose to 8.4%, up 0.3% on the quarter (a 17 year high), with wage growth remaining unsurprisingly subdued at 1.9%. KPMG were appointed administrators of the struggling retailer Peacocks this month, a continuing sign of weakness in the UK, heightening the prospect of further QE in the coming months despite the brighter global economic data.

**CPI: % change over 12 months**


**Unemployment rate (aged 16+), seasonally adjusted**




*Source: ONS*

## Asia/China

China's working population fell for the first time since 2002 to 74.4%, suggesting that the labour supply is tightening. With fewer workers available, the increase in demand for higher wages and better working

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conditions can clearly be seen through a series of strikes across the country since November. The shortage is the result of the continuing one-child policy that was implemented two decades ago.

## Europe

Standard & Poor's downgraded the ratings of nine countries across Europe with the AAA ratings of Austria and France downgraded to AA+ along with the European Financial Stability Facility (EFSF). This was largely expected by markets, evidenced by French bond yields not moving following the announcement and that ten-year yields have been consistently higher than other AAA-rated countries for some time now. However, it is politically damaging, especially as Nicholas Sarkozy is currently second in the polls with an upcoming presidential election in the spring. The sovereignty of France is expected to be a key battleground.

## US

Kodak has filed for bankruptcy protection. The 131 year old company failed to move competitively into the digital age. The company's UK pension fund has a large deficit (which is a vestige of the time when it owned huge manufacturing plants in this country) and it had promised to inject $800 million over the next decade. The Kodak UK pension trustees may now attempt to claim priority over other creditors' claims in the US.

The US Labor Department said initial claims for state unemployment benefits dropped 50,000 to 352,000, the lowest level since April 2008 and the biggest drop since September 2005. In terms of economic growth, it was recently announced that the US grew by an encouraging 2.8% annualised in the last quarter of 2011.

**Equities**

| Index | 20 Jan | 27 Jan | % week | % YTD |
|---|---|---|---|---|
| **FTSE 100** | 5,741.15 | 5,795.20 | 0.94% | 1.67% |
| **S&P 500** | 1,314.50 | 1,318.45 | 0.30% | 3.24% |
| **Nikkei** | 8,639.68 | 8,849.47 | 2.43% | 3.38% |
| **DJ Euro Stoxx 50** | 2,435.04 | 2,460.40 | 1.04% | 2.95% |
| **Hang Seng** | 19,942.95 | 20,439.14 | 2.49% | 8.27% |

% is in local currency. Latest figures are opening levels

**Bond yields**

| | 20 Jan | 27 Jan | % week | % YTD |
|---|---|---|---|---|
| **Gilt** | 2.04 | 2.09 | 2.45% | 3.47% |
| **US Treasury** | 1.97 | 1.93 | -2.03% | -1.53% |
| **German Bund** | 1.85 | 1.86 | 0.54% | -2.62% |
| **UK Corporate** | 5.45 | 5.39 | -1.10% | -2.71% |

All government bond yields are 10-year. Corporate bond yield is weighted average. % change is change in yield, not price

**Currency**

| | 20 Jan | 27 Jan | % week | % YTD |
|---|---|---|---|---|
| **GBP/USD** | 1.55 | 1.570 | 1.29% | 0.45% |
| **GBP/EUR** | 1.20 | 1.193 | -0.58% | -0.42% |
| **GBP/JPY** | 119.20 | 121.400 | 1.85% | 1.17% |
| **USD/EUR** | 0.78 | 0.760 | -2.56% | -0.78% |

## Investment update

### Structured products

Mattioli Woods has structured two new plans through Walker Crips, using Citigroup as the counterparty. The two plans are based on five global companies; BMW, BP, Johnson & Johnson, Microsoft and Roche. The first plan offers an attractive income rate of 10% per annum, paid on a six-monthly basis. The second plan offers kick-out opportunities with 8% per annum growth if four out of the five share prices are at the same level or higher at any one of seven observation points from year three onwards. Both plans are capital at risk structures but the potential risk-reward payoff is attractive. For further details, please visit: www.mattioli-woods.com/services/structured-products.php

Article by Ben Wattam
Investment Manager

### Commercial property

Custodian Capital, which is part of the Mattioli Woods plc group of companies, has recently completed the funding of its latest property partnership at 98 Argyle Street, Glasgow. Investors raised over £1.4 million in denominations of between £10,000 and £50,000 to fund this popular investment, let to Greggs plc, in the city centre of Glasgow. This successful and fast expanding business has a lease for a further eleven years.

The partnership was structured as a deferred income partnership with a starting loan-to-value of only 24%. Five-year, fixed rate debt was agreed at a cost of 3.7% per annum. This competitively priced debt, negotiated with Santander, will enhance returns in the medium to long-term. In the first five years of the partnership, rental income is used to repay the initial loan and investors should benefit from a compound return on capital of over 5.5% per annum. Thereafter, rental income is distributed to investors – forecast at 6.5% per annum in year six.

The partnership was launched two weeks before Christmas and was fully subscribed by the third week in January, demonstrating the strong demand for syndicated commercial property. The high income returns and long, secure and predictable income derived from commercial property remains popular in context of the low returns and volatility of the wider economy

Custodian Capital has just launched a new property opportunity in Macclesfield, Cheshire and is close to completing the funding of another in Redhill, Surrey. For full information on either of these or future investments please refer to your consultant at the earliest opportunity, or visit: www.mattioli-woods.com/services/spi.php

Article by Richard Shepherd-Cross
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