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Investment Clock update

Trevor Greetham – Asset Allocation Director and Portfolio Manager of the FIF Multi-Asset Strategic Fund

Economic update

From stagflation to reflation

“After ten months stuck in stagflation, the Investment Clock model has moved into bond-friendly reflation. The crash in commodities has seen inflation pressures evaporate. The disinflationary backdrop was brought on by a seizure in credit markets and a corresponding lurch downwards in global growth. Central banks no longer have a conflict of interests between financial stability and price stability. We’ve seen coordinated rate cuts and a barrage of initiatives to stem pressure to shrink financial balance sheets. Monetary ease takes effect after a long and variable lag. Sentiment is extremely depressed and policy makers won’t give up until they make an impression. Volatility doesn’t stay this high forever.”

Trevor Greetham

Lead indicators in focus

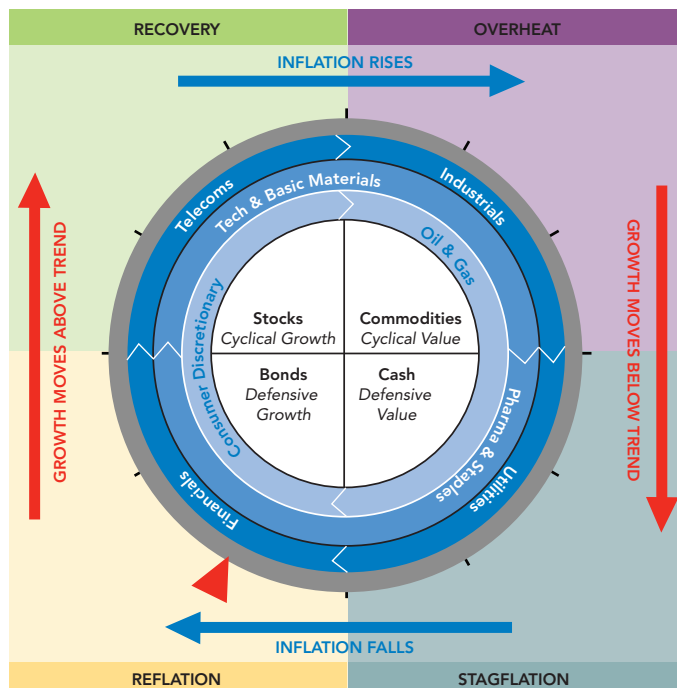
In his ongoing analysis of the investment clock model, Trevor focuses on two key indicators:

Inflation

- Falling commodity prices have moved inflation into negative territory
- Increasingly weak growth indicators fuel risk of deflation

Growth

- All regions in the world see downside surprises in their economic data releases; global recession looks inevitable
- US business confidence drops sharply; leading indicator for industrial production is now at levels seen only in deep recessions



Current asset allocation positioning

“Reflation is usually good for bonds and interest rate sensitive stocks, particularly the financial, consumer and property sectors. I have moved consumer overweight and increased financials to neutral. Reflation is less supportive for commodities, industrials and emerging markets so I have further reduced my exposure to these. I am still cautious on equities given the likely persistence of economic weakness in 2009 and beyond. However, my underweight positions are the smallest in approximately a year.”

Strategic benchmark	Active allocation		
	Underweight	Neutral	Overweight
Equities (35%)	█	█	█
Property (5%)	█	█	█
Commodities (10%)	█	█	█
Bonds (40%)	█	█	█
Cash (10%)	█	█	█

