

## Media release

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# Sarasin predicts Asian currencies and Western equity markets will be the real winners of RMB reform

In light of China's announcement of reform to the RMB exchange rate regime, Sarasin has increased holdings of short-dated emerging market (EM) bonds and currencies, according to the Sarasin House Report Quarter 3 2010 Market View by Guy Monson, Chairman of Sarasin Group's Investment Policy Committee. According to Sarasin, a stronger RMB will be reflationary for the global economy and deflationary for China, benefiting both, while reducing trade friction and rebalancing global demand.

This global story supports a renewed rally in risk assets, increases the risk of bonds at today's ultra-low yields, and highlights the potential of blue-chip companies that operate globally and have a strong emerging market presence. On the back of these trends, the giant exporters based in France and Germany, whose combined exports exceed either those of China or the US by almost 25%, will especially benefit given China's soaring wage costs.

### Guy Monson, Chairman of the Investment Policy Committee

"Asian investors should strongly consider investing in Asia from beyond Asia. We fully expect companies selling into the emerging growth miracle to deliver better results than local players. The valuations and currency advantages of Western-based companies are compelling."

In the face of volatile economic data, fundamental moves in the tectonic plates of currency markets, and rising inflation across the emerging world, Sarasin offers the following recommendations:

1. Sarasin's "Nifty Fifty" global equity theme\* remains strong. This is driven by rising inflation and input costs which will be passed on to consumers, creating independence from the current inflation/deflation debate. Unit costs are falling in the West at their fastest rate in almost 50 years. Combined with non-financial cash flow climbing at its *fastest rate* in decades, companies have considerable financial autonomy, allowing consistent dividend increases in excess of inflation. Growth in the emerging world, and demand for more sophisticated infrastructure (e.g. power stations, robotics, transport, healthcare) has created opportunities to leverage Western intellectual property and innovations in the technology, infrastructure and pharmaceutical sectors. Management has also demonstrated determination in maintaining margins despite rising input costs, further supporting our focus on the "Nifty Fifty" export-driven, cash-rich global businesses which are at the heart of Sarasin's EquiSar family of funds.
2. While the reform of the RMB exchange rate regime is likely to attract funds to Asia, Sarasin recommends playing this funds-flow story through short-term EM bonds, rather than increasing EM equity holdings. Due to higher input prices, rising labour costs, and valuations dependent on very optimistic earnings, Sarasin prefers its global "Nifty Fifty" theme to regional EM stocks.



3. Global equity dividend income is significantly more attractive for long-term income generation than the ultra-low nominal yields produced by bonds, both corporate and government. At current levels, bond yields cannot satisfy Sarasin's total return targets or inflation risk budgets set for private and charitable clients. Dividend increases continue above expectations with the exception of BP, reinforcing Sarasin's long-held view that clients should globally diversify income sources.
4. Abnormally high correlations continue across global markets as investors appear to see asset allocation as a simple "risk-on/risk-off" decision. The current situation is reminiscent of equity markets in 2002, when, in the second year of the technology crash, correlations surged as investors rushed to "de-risk". The resulting sell-off created huge value opportunities, producing five years of extraordinary alpha opportunities across world markets. On a thematic basis, Sarasin forecasts the need for emerging world financial services, cloud computing, dietary and healthcare challenges for the new EM middle class, and service solutions as governments cut back, as repositories of tomorrow's equity alpha.
5. Sarasin continues to see gold as an effective hedge against the possible failure of the more radical fiscal and monetary policies being adopted globally. Given risks associated with the US financial outlook, gold will act as a hedge against a dollar-currency crisis, as in the euro crisis, for some months yet. Gold is also preferred to longer-dated conventional government bonds as inflation remains a last resort for governments if fiscal consolidation fails.

\* Examples of 'Nifty Fifty' (large cap, buy and hold growth stocks that can attract disproportionate institutional buying power) include: Roche, Cisco, Intel, Kubota, Genting Berhad, SMRT Corporation, Hynix Semiconductors, Asian Bamboo, and Singapore Post Ltd.

To view Sarasin's Q3 House Report, please visit:

[http://www.sarasin.co.uk/internet/ieuk/house\\_report\\_-\\_q3\\_2010.pdf](http://www.sarasin.co.uk/internet/ieuk/house_report_-_q3_2010.pdf).

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