CAZENOVE
CAPITAL MANAGEMENT

Technical Strategy - Robin Griffiths

Not the end of the World – March 2012

Robin Griffiths is a technical strategist providing chart based analysis and marketing support, primarily to Private Wealth Management within Cazenove Capital. His views only represent one element of the investment decision making process at Cazenove Capital.

It appears that growth in the global economy was not as bad as last year's valuations indicated hence markets are breathing a sigh of relief but recoveries are never certain. The LTRO has certainly bought European politicians time to consider a structural solution to the euro crisis but in that time, European countries and most notably the periphery and Greece are having to embark on the austerity measures required by Germany. It is questionable whether the Greek people will tolerate these for long. Even assuming the plan works perfectly, in 2020 Greece would still be as indebted as Italy is now with government debt at 120% of GDP and rising. So it's not inconceivable that the Greek people themselves may ultimately vote to leave the euro.

There are a number of other important elections this year which could dramatically change the way the global economy develops. Vladimir Putin has, unsurprisingly, romped home in the Russian Presidential election but there is considerable social unrest brewing. The French election in May could bring fresh uncertainty to the eurozone if Francois Hollande, who is currently ahead in the polls, ousts Nicolas Sarkozy. Angela Merkel's support of Sarkozy is an indication that Germany intends to support France only if it plays by German fiscal rules. The big election is, however, in the US. The improvement in the economy should favour President Obama, especially as the opposition is still fighting amongst itself.

The markets are already behaving as though they know what is going to happen. They believe that the recovery in the US will allow it to dig its way out of the mess it got into. It will, however, be a slow process. Subdued growth with low rates of interest may keep a cap on investment returns but, little by little, things will return to a more normal situation.

In Europe, Germany and other Northern European countries will remain resilient to what is happening but growth will remain slow in Southern Europe. With markets having recovered much lost ground, these are conditions that favour individual stock picking, not major market calls.

But the charts indicate that the best performance may still come from emerging markets. China and India, together with commodity producing economies, should be the lead movers. These markets are already moving ahead and, in some cases, making new all-time high break-outs. This is my base-case scenario which justifies having long-term strategic holdings in these areas but investors should be conscious that in the short term, volatility is expected to continue. It is worth remembering that when there is a strong consensus about a certain view, it invariably proves to be wrong.
