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Monthly Commentary 31st January 2012

While the crisis in Europe has certainly not been resolved, the actions by the European Central Bank (ECB) have succeeded, in the short term at least, in stabilizing the situation. Coupled with decent economic news from the US, the equity markets got off to a strong start in 2012. Add to that the 28 interest rate cuts globally in the last three months, and this should benefit risk assets. In addition to equities, metals – both precious and base metals - got off to a very strong start, as did emerging market currencies.

To be sure, there are headwinds that cannot be ignored. Both the IMF and the World Bank recently downgraded their growth forecasts for the global economy. Q4 corporate results (ex-Apple) were by and large disappointing and debt is still a major issue in the developed world. While risk assets rose, it is rather disturbing to see safe havens like US and German benchmark bonds both stronger than they were at year-end. Are markets just climbing a wall of worry, defying most investors' expectations? Could they turn on a dime? Why has gold become a risk asset?

Some of the beneficiaries of the risk-on trade have been the long-short equity funds we use. Alpha Select, SWMC and Nevsky have so far reported strong returns of 4%+ for the month. This is in contrast to the broad Long-Short Index that has risen less than 2% this month as many managers were defensively positioned. The managed future funds we use continue to be challenged by the change in trends, with Winton, Tulip and Lynx on either side of flat, but Palm suffering a loss as it focuses more on metals trends, which reversed sharply this year. Other funds that have done well this month are the AC Market Neutral Fund,the GAM Global Rates Fund and Thames River Longstone.

This week we shall be adding some Pimco institutional fixed income funds to our portfolios. These are funds with $10M per investor as the minimum subscription amount. They are amongst the best managed fixed income funds in the world with very low expense ratios. They include the Total Return Fund (managed by Bill Gross), the Global High Yield Fund and, in some instances, the Emerging Markets Bond Fund. In all cases we shall only invest in the master fund for USD clients and currency-hedged classes for EUR, GBP and CHF clients. The allocation to these funds will vary depending on client strategies, as we view Pimco's consistent 6-8% annual returns as a stabilizing factor in portfolios.