How we did in 2012

Our Prediction	What Happened	Score
In 2012 US Equity Markets will provide the best risk adjusted returns within the Developed Markets. We feel fund flows will continue to come in to more financially secure Developed Markets, in particular the US in addition to positive factors such as the Public budget stimulus and history of positive market returns in Presidential election years. Earnings forecasts @ 14.7 times also look relatively strong compared to historical averages.	With the S&P returning 13.4% in 2012, US markets produced good returns considering the economic and political backdrop that prevailed throughout the year. In comparison to other developed markets the region proved good value against the UK (FTSE 100 5.8%) and performed in line with broad European indices (FTSEurofirst 300 13.2%). Far East markets received a boost in Q4 2012 with the landslide Liberal Party election victory, weakening Yen and continued economic stimulus in Japan and the conclusion of China's election removing some of the headwinds in the region and driving both the Nikkei 225 and Hang Seng 2012 returns of 22.9%.	**3/5**
With austerity measures likely to kick in shortly we feel the United Kingdom will remain in recession with little prospects of growth as a whole. There will still be scope for Equity returns as more than half the companies in the FTSE100 generate revenue from other markets	The UK market on the whole underperformed other developed markets, posting a modest return of 5.8%. Under this backdrop we switched our focus to yield alongside selected UK stocks exposure to global growth via emerging markets.	**5/5**
We believe there will be significant political and policy risk within Europe throughout 2012. There is a high probability that an exit of a Euro zone European Member will create contagion and this would become through the fiscal debt level that Greece currently sustains. We believe there still exists opportunities in certain European markets.	The Euro zone debt crisis occupied the headlines for much of 2012 and in particular throughout Q2 and Q3. During this period we reiterated our cautious stance on both equities and bonds where in our view downside risk , low volumes and the threat of contagion overshadowed historically cheap valuations	**3/5**
After an average decline in property prices of 40% we feel that a number of factors will positively impact on the US housing market. At some point the housing market will begin to recover in line with consumer deleveraging and overall sentiment following the sub-prime market collapse in 2007.	US housing has proven to be one of the major themes underpinning the region's economic recovery. We began building long term exposure to this theme in August 2012 having monitored improving indicators for much of the year and despite some profit taking in the 2nd half of the year the sector posted returns of around 8%.	**5/5**

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Gold as a commodity will move significantly higher in 2012 from its starting value of $1590 as central banks throughout the world devalue their currencies through fiscal easing creating liquidity in the financial sector to stimulate lending and bolster the balance sheet of banks in many of the developed economies.	The gold price reached a peak of $1790 (12.5%) in 2012 but remained range-bound due to the on-going risk on/off environment, monetary easing uncertainty and the strength of the dollar.	**4/5**
Japanese Equities will continue to underperform relative to other DM indices due to the relative strength of the Yen and government policy which has a negative impact on a capacity to export. The level of state debt is extremely high and no future signs of growth or inflation within the economy for some time to come.	As mentioned, Japan surprised on the upside with a return of 22.9% in the Nikkei 225. The region was volatile over the course of the year with 20% gains in Q1 and Q4 juxtaposed with a downturn of -16% over Q2 and Q3. Problems persisted in the form of debt coupled with limited growth and inflation. Market timing would prove crucial in this type of environment where short term opportunities present themselves through the improved market sentiment that follows Fiscal monetary stimulus.	**2/5**
There are fundamental changes taking place within China and with the new political heads in charge of policy changes later this year we do not want to be overly committed to Chinese Equities. There are a number of property projects still lying unfinished and the c cost of labour is increasing in line with certain elements of social unrest. A soft landing could mean a reacceleration in the region's growth as well as giving the global economic outlook a shot in the arm however we remain wary of the accuracy of key data released from China.	We maintained a neutral weighting in China through most of 2012 as our concerns remained regarding property and labour headwinds along with the accuracy of economic data releases. We increased exposure to the Asia Pacific – Ex Japan region in the latter part of Q4 when economic indicators began showing a more consistent pattern of bottoming out and reaccelerating .The region surprised on the upside through the 2nd half of the year, receiving timely boosts from global monetary easing programs as well as key leadership changes in China, Korea and Japan in Q4 which removed short term headwinds and sparked heavy fund flows into the region.	**2/5**
Inflation is currently running at 4.2% in the UK. However, we think this will reduce more in line with the MPC's 2% target rate, providing some relief with the current level of Fixed Interest yields on offer at present. We feel inflation caused by higher commodity prices including oil should reduce in line with OPEC's assurance to increase supply to help stimulate world growth. This is reassuring for interest rate policy which should remain low and in line with Central Bank assumptions.	Inflation has reduced in UK to approximately 2.7%, commodity prices eased in the latter part of the year as supply constraints caused by unusual weather conditions normalised. The oil price stabilised in the latter part of the year with likelihood of spikes from supply shortages being reduced by increased US supply and the shale gas boom which has introduced cheaper fuel to the region. Our portfolios were positioned to take advantage of the higher yields found in global investment grade and high yield debt markets where we felt low default rates made the risk/reward ratio more attractive.	**5/5**