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WEALTH MANAGEMENT

MARKET INSIGHT

APRIL 2012

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Market analysis

Global economic conditions

Are concerns about huge swings in international equity markets still justified?

Stock markets have rallied strongly since the lows of September 2011, particularly in Europe and the US. In the wake of the recess underway since mid-March, should we be concerned about a fresh wave of risk aversion, comparable to that of summer 2011?

For the past three years, our favoured scenario has been based on a transitional economic cycle in the shape of a *square root*. After the downturn in 2008-2009, followed by a sharp recovery in 2010, the world economy has entered a period of swift and successive acceleration and deceleration in activity. Weaker expansion than in the 2000s and a high degree of economic volatility are the assumptions underlying this vision.

The logical counterpart of the economic cycle's weaker visibility is highly volatile financial markets. Unlike in the cycles of 1990 to 2007, the great uncertainty about economic developments is fuelling erratic movements in investor psychology. Sometimes the fear of a dip back into a global recession heightens risk aversion and sends equities down, at other times a series of more positive economic indicators generates excessive enthusiasm for risky assets. This demonstrates that markets no longer know which way to turn.

> « Should we be concerned about a fresh wave of risk aversion, comparable to that of summer 2011? »
>
> **François Savary**, Chief Investment Officer, Reyl & Cie

Liquidity injections by the ECB in December 2011 and February 2012 were undoubtedly an important factor behind the stock market rally since December. This action by the monetary authority was necessary to allay concerns about a fresh global recession triggered by the European crisis. But this does not mean that macroeconomic doubts are a thing of the past, and it would be going too far to assume that risk aversion phases will not make a come-back.

That said, it is likely that liquidity injections into the European financial system will prevent any financial market turmoil from reaching the same magnitude as in the summer of 2011.

While the premise of a linear performance by equities in the near future appears incompatible with our economic views, the risks of a significant correction by equity markets are more reduced.

Investors must continue to adopt a tactical investment policy and adjust their allocation depending on how the ongoing cycles of aversion/love towards risk may unfold. However, as a result of liquidity injections in recent months, any downturns in the equity markets should take the form of a consolidation. This implies that investors should not be too greedy when seeking an entry point into equities.

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Focus

“Food: a growth sector?”

Daniel Steck
Financial analyst in charge of Reyl Group's North American Equities selection.

Despite the sector's primarily defensive appeal, pockets of growth still exist.

In which areas can growth be found in the food sector?
Investors are generally interested in the sector's defensive characteristics, more than in its strong earnings growth. However, some specialised sub-segments, such as infant nutrition have particularly attractive growth potential. This relatively fragmented US$26 billion market is growing by around 8% annually and could be worth US$36 billion by 2016.

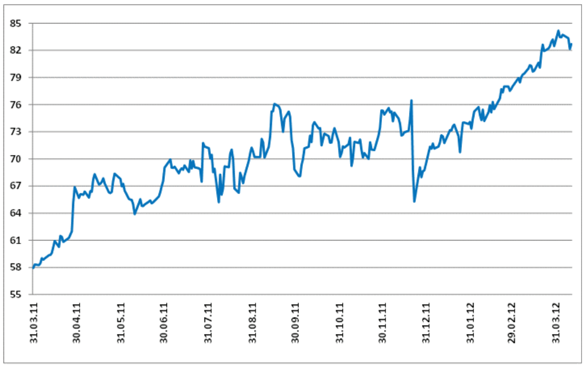
What are the principal growth drivers of specialist nutrition for children and babies?
Emerging markets are fuelling growth in this segment. Rapid urbanisation in these countries is bringing about behavioural changes among consumers, who are turning to specialised nutritional products for their children. And GDP growth, which is closely correlated with birth rates, is far stronger in emerging countries than in developed markets.

Who are the principal operators in this segment?
All leading consumer companies are present in this sector, whether European or US based, Nestlé, Danone and Heinz generate a significant share of their revenues via this sector. US healthcare groups, such as Pfizer or Abbott, also have a foothold in this business which, like pharmaceuticals, requires considerable investment in areas of research and development.
However, the global market leader is Mead Johnson, which is the only *pure play* company in this sector.

IN A NUTSHELL

A defensive way to gain exposure to emerging markets

With just over 10% of market share Mead Johnson is the market leader. The group generates 66% of its sales and 72% of its profits in developing countries, and China is the leading company's growth contributor. In 2011, sales in China increased by 45%.



Mead Johnson Nutrition CO

Over the next five years, annual earnings growth could average 12%. The stock, while expensive, is an excellent way to gain exposure to China through a defensive investment.

Mead Johnson is one of our favourite stocks in the consumer staples sector.

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