North
Investment Partners

**This blog was printed in Professional Adviser and available online www.ifaonline.co.uk*

April is the cruellest month

"APRIL is the cruellest month, breeding
Lilacs out of the dead land, mixing
Memory and desire, stirring
Dull roots with spring rain.
Winter kept us warm, covering
Earth in forgetful snow, feeding
A little life with dried tubers."

Whilst I very much doubt TS Eliot was writing about the financial markets, he could have been. In April 2010 and 2011, the market started to correct and on both occasions investors saw ten percent or more wiped from their portfolio valuations. Markets have sold off again in the first few weeks of this month and the question now is whether 2012 will see history repeat itself.

Let's consider the activity of equity and bond investors. Until recently, equity market investors have broadly remained in 'risk-on' mode, although the blanket euphoria witnessed earlier in the year was replaced by investors becoming more selective - the first sign of fatigue perhaps. For example, last month there was a divergence in performance of developed versus emerging market equities. This we attributed to two factors. First, the increasing price of oil, which is probably impacting emerging market corporate profits rather more than in developed markets, where spare capacity is greater. Furthermore, energy costs represent a greater proportion of the inflation basket in emerging economies - hence investors' expectations of monetary loosening have been tempered. Second, a continuation of strong news flow from the US contrasted with the perceived deterioration of data emanating from the emerging world, especially China.

Whilst equity investors have been selective, bond investors have been acting somewhat erratically. By mid March, both US Treasury and Gilt yields had reached year to date peaks, driven by further confirmation of a sustainable recovery in the US - and as such, less likelihood of further Quantitative Easing. However, by the month end, yields had collapsed as Federal Reserve Chairman, Ben Bernanke, reiterated his willingness to pump further stimulus into the economy should the improvement in the job market prove not to be sustainable. Realistically, there seems to be little

chance that central bankers, especially Bernanke, will risk killing off the recovery by raising interest rates too soon. For the record, just because interest rates will remain anchored at rock bottom for the foreseeable future, it does not mean government bond yields cannot move higher. With budget deficits only worsening, inflationary pressures failing to abate and central banks becoming the largest owner of their respective sovereign bond markets, the factors are in place for yields to rise. Whilst a return of risk aversion may result in some 'safe haven' buying, the risk return in owning gilts, bunds or treasuries remains highly unfavourable.

With equity investors becoming more selective and bond markets behaving erratically, there are strong grounds for caution. As the perennial stockmarket adage "Sell in May" begins to appear in market commentaries, it does seem that each year investors are preparing for the lower volume summer months earlier and earlier.

Three well known concerns remain – the Eurozone, US Economy and Emerging Market slowdown. None are fully played out, but as they become better understood by both the policy makers and their central banks, shallower corrections result.

John Husselbee
Chief Investment Officer, North
20th April 2012

North Investment Partners Ltd is authorised and regulated by the Financial Services Authority. This document is directed only to persons who are professional investors, market counterparties or intermediate customers. Persons who do not fall within these categories should consult their independent financial adviser or other authorised intermediary. The content expresses the views of the contributor and should not be construed as specific advice to individuals or as an enticement to invest in any of the strategies mentioned. Recipients of the document are reminded that investment may only be made on the basis of the information contained in the Prospectus relating to the particular Fund or Company in its final form and therefore this document must be read in conjunction with the relevant Prospectus. The Offer is not being made directly or indirectly in any territory where its distribution is prohibited by law and copies of this document may not be distributed in or into any such territory. Issued April 2012.