Investment Insight

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ARIA | CAPITAL

***Our survey says**: Q1 2014 has proven to be eventful. A 6% fall in stock markets in January was almost entirely reversed within weeks as optimism prevailed. Then upheaval in Emerging Markets and developments in Ukraine caused volatility and risk aversion for several weeks. As recently as yesterday, many markets are back at all time highs. So what lies ahead for the coming quarters and where are confidence levels in light of the significant turbulence experienced so far this year? In a very recent survey of equity and credit analysts, Fidelity provided some interesting insights which we share in this week's **Inside Track**.*

***Hungry for deals:** Already the biggest consumer of meat globally, some forecasters estimate that China may double its beef imports by 2018. As China's middle class becomes richer and tastes broaden, many household names are likely to become targets. China's domestic food production alone can't meet the country's needs. In this week's **Pic of the Week** we examine the recent pace of food sector acquisitions by Chinese corporates.*

The Inside Track

Fidelity operates one of the largest buy-side investment research teams in the world. Their recent survey of these teams garnered responses from 128 analysts covering all regions and sectors, who were asked to comment on a range of topics. The following are some takeaways from the survey.

Growing management confidence, shareholder-friendly actions

The outlook is best classified as "cautiously optimistic". While cash is coming off balance sheets, at present, it is largely being focused on shareholder-friendly, bolt-on M&A and increases in dividend pay-outs rather than aggressive capex growth.

Developed beats emerging, knowledge economy dominates hard assets, US the standout

Fundamentals strongly favour developed over emerging markets. The US comes out as the strongest geography overall, topping the survey findings for business confidence, capex outlook, dividend growth and balance sheet health. Intellectual property sectors such as healthcare and technology – which are well represented in developed markets – come out more strongly than materials and energy sectors. The pharmaceuticals and IT sectors are expected to boost returns on capital, while energy and materials are expected to see declines.

Research will be critical in a more discriminating environment

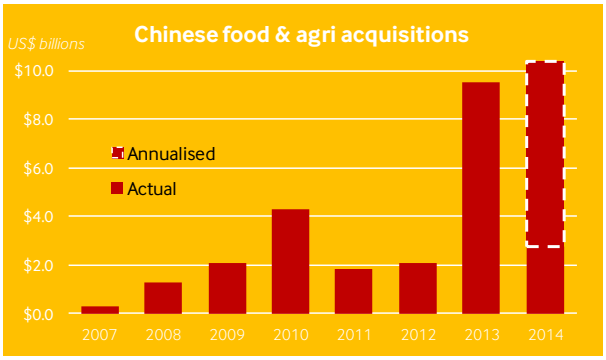
The equity market will revert to rewarding the best allocators of capital as it more clearly discriminates between winners and losers in terms of companies that create shareholder value. From a fixed income perspective, the credit cycle is maturing as leverage creeps higher and valuations tighten. Event risk will be the dominant theme for credit investors over the next 12 months, which creates both winners and losers in the bond market.

In summary

Overall, from an equities point of view, the analyst survey paints a generally positive picture with moderate optimism around business confidence and a capex recovery, strong anticipation of mergers and acquisition activity, as well as an expectation for either maintained or improved dividend pay-outs. The positive showing for company managements being ready to invest in their businesses indicates that the overall investment climate is improving and there is growing confidence in gradual economic recovery. It also augurs well for a gradual improvement in earnings.

Pic of the Week

China has an insatiable appetite for acquisitions in the food sector. Chinese corporates are racing to secure access to food supplies to meet the growing demand in the world's most populous country. Food-related acquisitions by Chinese buyers reached a record in 2013, led by the $7 billion purchase of Virginia pork processor Smithfield Foods (the biggest Chinese purchase of a listed American company). In the chart below we track the activity over the past several years.



Week ahead: Key events

07/04 EU Sentix Investor Confidence
08/04 Japan Current Account Balance
08/04 UK Industrial & Manufacturing Production
09/04 Germany & UK Trade Balance
10/04 ECB Monthly Report
10/04 Ireland Bond Auction
10/04 BOE Rate Decision & US Initial Jobless Claims
11/04 China CPI
11/04 US University of Michigan Confidence

Market View

	Last 7 days	YTD	5Y Ann.
Global equities	+2.1%	+1.3%	+13.0%
US equities	+2.1%	+2.2%	+17.5%
European equities	+1.0%	+2.4%	+12.1%
Emerging market equities	+1.5%	-0.3%	+10.1%
Irish equities	+1.5%	+11.6%	+16.8%
Commodities	-0.3%	+6.8%	+3.4%
Hedge funds	+0.5%	+1.3%	+3.8%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+3.0%	-0.1%	-0.7%
Germany	+1.6%	+1.0%	+1.4%
USA	+2.8%	+1.1%	+2.6%
China	+4.5%	+2.0%	+7.7%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.37	-0.3%
EUR:GBP	0.83	-0.5%
EUR:CNY	8.52	+2.1%
GBP:USD	1.66	+0.2%

Commodities	*Current*	*YTD Δ*
Gold	1,287.35	+6.8%
Copper	6,643.25	-9.9%
Oil	106.29	-3.3%
Wheat	673.50	+10.0%

Central Bank rates	*Current*
Eurozone	0.25%
USA	0.25%
UK	0.50%

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