

Market views



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So far this year, the global economy has been in recovery mode. And, though recent economic indicators have suggested some moderation in economic growth rates, I believe we will avoid a double-dip recession. However, the UK does face an extended period of anaemic economic growth with government finances in poor shape and a highly-indebted consumer who is likely to be weighed down by increased taxation, lacklustre wage growth and rising unemployment.

Despite these challenges I am convinced there are good income opportunities across a range of sectors, including industrials, financial services and regulated utilities. Within financials I currently like stocks such as Resolution, Close Brothers and Hargreaves Lansdown, which I see as having scalable business models with significant barriers to entry.

Tackling government finances will not be pain free and I am wary about investing in companies which are directly exposed to this segment of the economy. However, I have recently taken a holding in Balfour Beatty. Their shares have suffered as a result of negative sentiment over public spending cuts with no consideration for the group's international spread, strong contracted order book and secure 5% dividend yield.

Elsewhere the background for consumer spending will remain challenging for several years and I believe a strong company-specific story is required for investing in this area. For example, I continue to back Dunelm, attracted by its low risk, high return store roll-out programme. The company enjoys a 'survivor bias'; its competitors have gone bust through the recession and retail space is cheap to acquire.

Gilt yields highlight the fear of a double-dip. However, corporate balance sheets are strong, M&A activity is selectively returning and the stockmarket continues to offer an attractive source of growing income in a world where interest rates could stay close to zero for some time yet. I remain relatively upbeat on stockmarket prospects.

Bull points

- No double-dip recession for the UK
- Income opportunities across a range of industries

Bear points

- UK faces period of anaemic economic growth
- Tackling government finances will not be pain free.

Source: rlam as at 13th September 2010 unless otherwise stated.

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