

News & Views



Rutland Investment Managers LLP

New day or false dawn?

The UK housing boom reached its peak in 2007 but since then, house prices have taken a knock, ravaged by the credit crisis and the effects of the recession. However, data for 2009 suggest the market is now showing signs of recovery. The Nationwide declared that house prices rose by nearly 6% over the year (albeit from a low base) which should come as welcome news for many beleaguered householders – but does it herald the start of a sustainable recovery?

The British Bankers' Association (BBA) November release announced that the number of mortgage approvals for house purchase were holding up and were back to similar levels of two years ago. However, the average value of those mortgages remained slightly lower than 2007 and remortgages are virtually non-existent as existing borrowers revert to low variable rates when their mortgage deals end.

Ernst & Young's Item Club expects the UK housing market to get worse before it gets better as tight credit conditions linger, warning that current signs of recovery are a "false dawn" caused by a shortage in supply.

For now, however, exceptionally low interest rates are attracting some buyers, with the growth in demand particularly strong amongst buy-to-let investors and cheaper properties. However, UK unemployment is still over 2.4 million and, despite a small fall, the outlook for jobs is not all positive. Even after the UK economy finally returns to growth, and this can only keep the pressure on a still-fragile market.

Welcome to the latest edition of News & Views, our update on developments in the world's stockmarkets.

If you would like to discuss any of the issues raised in this newsletter, please do not hesitate to give us a call.

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Invest in an ISA

People often leave any thoughts of Individual Savings Accounts (ISAs) until the last minute, driven by the 5th April deadline. This date focuses the mind on taking advantage of one of the few tax breaks investors get. However, you do need to take some time to consider whether the tax benefits are appropriate and how you can use your allowance to meet your objectives most appropriately. For those aged over 50, your allowance for 2009/10 has just been increased to £10,200 and this can be invested either as a single lump sum, a series of smaller amounts or even via regular monthly savings. As the year end - and then tax year end - are fast approaching, now is the time to start planning where that might go.





The right time

Figures from the Office of National Statistics to Sept 09 indicated the UK has been in its longest recession since WWII, however, many do expect figures for 2009 year end to show a return to growth. For the Bank of England, therefore, the dilemma will now be to decide if the reported 'green shoots' are real or just a reaction to both the massive cash injections we have received and the effect of Christmas spending. It is possible they will disappear as soon as we settle down to the New Year and tighten our belts once again. However, with the Consumer Price Index showing a rise to 2.9% in December, inflation could become the next issue. The Bank will be aware of the threat when making interest rate decisions over the coming months.

Glimmers of hope

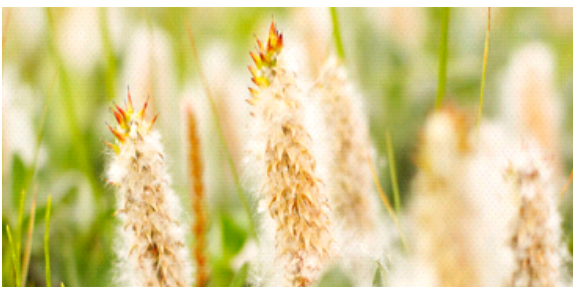
A New Year and a fresh start, but looking ahead to 2010, economic recovery is likely to be muted. The role of the consumer will be crucial after signs of optimism in December as consumer demand remains a primary driver in developed markets. However, many individuals are highly indebted and feeling the effects of lower house prices and job losses.

Towards the end of 2009, the International Monetary Fund raised its forecast for global economic growth during 2010 to 3.1% with the European Union and G7 countries now expected to expand by 0.4% and 1.3% respectively. Emerging markets, however, are likely to make better headway. The best-run companies will likely emerge from recession in relatively good shape, having pared back excess fat in response to the recession and focused on their most profitable operations. As growth returns to the UK, companies should be able to focus once again on long-term development rather than short-term survival strategies, and this could lead to renewed activity in research, development and innovation.

2009 saw many central banks, the Bank of England included, take radical measures to shore up their flagging economies but attention has now shifted to how and when to withdraw those stimuli. January has seen the Bank of England maintain their £200 billion programme but ultimately, a lasting economic revival will need to be driven by sustained public demand rather than by artificially created measures. Politics is likely to take centre stage in the UK, at least in the short term. A General Election has to take place by 3 June 2010 and the economy is likely to be a central campaigning theme for all the major parties.

Although the global credit crisis appears to have eased, the world is still suffering a hangover as tight credit conditions continue to make it difficult to borrow. Looking ahead, however, tangible evidence of sustained economic revival should provide corporate earnings with a more concrete foundation for future potential growth.

However, if the economic recovery shows signs of fading, investor sentiment is likely to transform from tentatively optimistic to uncompromisingly negative. If unemployment rises much further and consumer spending remains weak, this could inhibit recovery, and some analysts remain preoccupied by the fear any economic revival might run out of steam and slip back into recession. However, as the IMF has said, on balance, 2010 looks most likely to be a year of tentative yet subdued recovery.



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