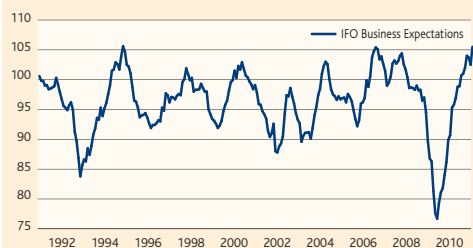


Global Investment Outlook

The monthly investment outlook from Aberdeen's multi-asset team

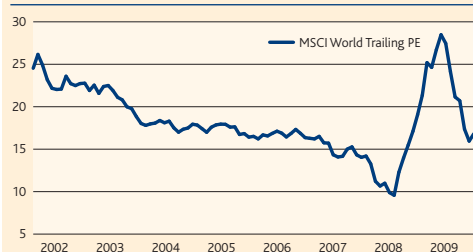


Business sentiment in core European countries has been remarkably resilient



Source: Factset, 13 August 2010

Equity risk premiums will continue to rise whilst the de-leveraging process unfolds



Source: Datasteam, 13 August 2010

Key forecasts	US	Japan	Euro-zone	UK	China	Global
GDP rolling 12m forecast	2.5	1.8	1.3	1.8	9.4	2.6
Consensus	3.0	2.3	1.3	1.8	9.4	2.9
CPI rolling 12m forecast ^A	1.1	(0.5)	1.0	2.6	3.8	1.2
Consensus	1.6	(0.5)	1.5	2.6	3.3	1.5
Current Base Rates	0 - 0.25	0.10	1.00	0.50	5.31 ^B	-
Monetary Policy (3m)	0.25	0.10	1.00	0.50	5.31 ^B	-
Monetary Policy (12m)	0.50	0.10	1.00	0.50	5.58 ^B	-

^A core rate ^B PBOC 1 year Yuan Lending Rate
Source: Aberdeen Asset Managers Ltd, 13 August 2010

Asset allocation	Deviation (%) ^C
Equities	0.0
- UK	(1.0)
- US	0.0
- Japan	0.0
- Europe ex UK	0.0
- Asia	1.0
- Emerging Markets	0.0
Fixed Income	(3.0)
- Conventional	(2.0)
- Index Linked	(1.0)
Property	2.0
Cash	1.0

^C Deviation refers to a % over or underweight vs. our core multi-asset benchmark.
Source: Aberdeen Asset Managers Ltd, 13 August 2010

Executive Summary

- Risks of another recession and of deflation have increased
- Corporate sector remains key to sustaining growth
- Monetary policy may be further eased in major countries

It would be disingenuous to ignore the risks of another lapse into recession for the global economy. Much now depends on the confidence of the corporate sector to maintain momentum through investment and the sustenance of personal sector income. Asian and other emerging regions have also started to roll over in terms of growth momentum, and this resynchronisation of fortunes is another reason to be cautious.

However, we are not yet at a point where we see another outright decline in activity. Incomes are still growing and we do not anticipate consumption stalling completely despite the shift to higher savings. Nevertheless, progress is likely to be slow, which may perpetuate the anxiety surrounding economic prospects.

Commensurate with this fragile background, risk premiums in equity markets should stay elevated. In fact, there appears to be short term dislocation in the pricing of government bonds versus equities, which should rectify itself. We suspect that risk appetite indices will move into the panic zone before stock and credit markets can make any sustained progress, possibly following further policy easing by some of the major G7 central banks. We therefore stick to our view that the S&P 500 will be range-bound between the levels of 950-1000 and 1200-1250 for this year.

Mike Turner

Head of Global Strategy & Asset Allocation

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Global Investment Outlook

The world should escape a 'double dip' in activity

An inventory-driven pause is causing loss of US momentum

Core European countries continue to benefit from export demand

Asian growth is moderating

Inflation is not a threat

Economic and Market Outlook

The outlook for the global economy remains uncertain, particularly in developed countries where there has been divergent performance in recent weeks. Even in the developing regions growth has slowed, compounding investor anxiety that recession could reappear. These fears have justification but the world should escape a so-called 'double dip' in activity.

US

A number of leading indicators in the US suggest growth may slow to around 1.5% but the economy does not yet look like re-entering recession, although risks have increased. An inventory-driven pause is causing this loss of momentum and personal sector demand does need to improve. Confidence remains depressed by a lack of vigour in the job market but the corporate sector is still a bright spot which should contribute to growth.

Testament to this is that average hourly earnings continue to grow between 1.5% and 2.0% while the average work week has lengthened modestly. This income growth should lead to consumption growth albeit that savings rates are shifting upwards. Overall the picture is one of very modest progress as we enter 2011.

Europe including UK

Core European economies have surprised commentators with business surveys demonstrating optimism. Many expected sentiment to be affected by the sovereign debt crisis and fiscal austerity, but these countries continue to benefit from export demand resulting from a lagged impact of the inventory restocking cycle.

UK data recorded Q2 growth at a robust annualised rate of 4.6%, the strongest pace in nine years. Details of the budget spending review will be released in the autumn, and these will give some indication of future prospects.

Japan

Japanese GDP growth has fared poorly of late although the Tankan business survey indicated renewed vigour in manufacturing despite the weak yen. Employment prospects have improved marginally (helping consumer confidence) and household purchasing power has increased with deflation, but the economy really needs nominal income growth before consumption becomes a bigger influence on GDP.

Asia and emerging economies

Asia is experiencing a moderation of growth, although from a higher starting point. In China this is primarily domestically engendered rather than export-focussed, similar to Korea where personal indebtedness problems persist. Other countries such as India remain quite robust.

In Latin America Purchasing Manager Indices point to slower production over the summer, again associated with domestic demand, but in a similar fashion to stronger core Euro-zone countries, emerging European nations may see little short term deterioration.

Commodities

Commodity prices have maintained their high correlation with investor sentiment. Precious metals prices have stalled as investment demand has slowed, but energy and base metals markets generally remain in balance with demand and supply. Commodities may continue to struggle whilst uncertainty prevails.

Inflation is not a threat as output gaps still leave ample room for activity levels to rise before creating price pressures. Even within the emerging region recent inflationary scares are now being overcome.

Global Investment Outlook

Bond Yields, Currencies and Monetary Policy

Recent Federal Reserve governor comments have focussed on the decline in growth momentum over the second quarter, in contrast to the rhetoric surrounding an 'exit strategy' for super accommodative policy. Policy makers have now given a possible signal they are prepared to ease policy further with their decision to roll over MBS redemptions. This is not an increase in Quantitative Easing (QE2). It is only an extension by avoiding natural shrinkage of the central bank's balance sheet. Short rates will remain near zero for a further 'extended period'.

The Bank of England has downgraded its growth outlook for 2011, and indicated there is little inflation pressure for the next two years. The authorities are anticipating a significant impact on growth from fiscal contraction, thus the possibility of further policy easing remains open. The UK economy really needs to have nominal growth above 5% before it begins to close the output gap and warrant a more cautious monetary stance.

The UK government has announced a number of changes to the regulatory regime since its election, but there is a growing body of opinion that the monetary policy framework will also undergo some form of change, due to mounting recognition that policymakers need to have more control over asset prices and credit growth. The last few years have proved that simply keeping inflation low and stable does not guarantee economic stability.

Money market rates in Europe (Euribor) have drifted higher but the European Central Bank's (ECB) President Trichet has pointed out that this did not indicate a shift in the ECB's stance, but is merely a reflection of the demand for funds following the withdrawal of one year 'repo' facilities. Our view is that it reflects credit concerns within the banking system, despite the favourable results of the summer stress tests, and further monetary easing cannot be ruled out.

Despite being on course to record one of the strongest recoveries of any major economy this year, the Bank of Japan continues its battle against deflation, and so it is extremely unlikely interest rates will move from the current level.

There are signs that policy tightening elsewhere within Asia may be about to wane as the Chinese economy decelerates. However, Latin American countries and some other nations within the EMEA are still on course for higher rates and currencies.

Volatility in sovereign debt markets is still a feature with renewed anxiety focussed on Ireland. While these concerns prevail, investors are paying for safety, so it is not surprising to see the US 10-year bond Treasury below 3%. The prospect of QE2 may push the yield down to the lows of March 2009 (2.5%). On the topside, we see little cause for most G7 market yields to rise above 4% as inflation is of limited concern.

Emerging market debt had been affected by Euro sovereign debt problems as well as global growth uncertainty. Issuance has also picked up as countries have taken advantage of the notable fall in yields since early 2009. We suspect spreads will still tighten in selected countries, primarily those where government debt burdens are small, issuance limited and economic growth relatively high.

Credit markets have benefited from improving risk appetite and stronger corporate fundamentals in both industrial and financial companies. However until government finances return to a more sound footing, the economic outlook becomes more certain and excess leverage is eroded further, credit markets may suffer some minor setbacks.

Sterling has regained some strength against both the US dollar and euro and now looks more fairly valued. The dollar itself has been sold aggressively over the past few weeks; however this is largely a reflection of euro short covering, and a perception of relative strength of the Euro-zone economy over the US. We see the currency trading in a tight range in the very short term.

US policy makers have signalled possible further easing

The Bank of England has downgraded its growth outlook for 2011

Signs that policy tightening within Asia may wane

Investors are paying for safety in terms of bonds

Stronger corporate fundamentals have helped credit markets

Global Investment Outlook

We forecast a trading range of 950-1000 to 1200-1250 for the S&P 500

Real estate investment market sentiment has cooled

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Equities and Real Estate

The recent earnings season has underpinned our view that companies are in reasonable shape as balance sheets continue to strengthen, and margins squeeze higher due to cost cuts. The bulk of the cost base reduction may be over though causing investors to focus on top line growth. They are currently fixated by statements from the Federal Reserve and macro economic data, rather than corporate results.

We are at a difficult stage of the business cycle for equities. Typically when the US ISM (Institute for Supply Management) survey rolls over and earnings revisions turn negative (analysts have been over zealous in their 2011 forecasts and are now cutting them back), stocks make little headway.

Markets were headed lower during early July, although they never reached our target of 950-1000 on the S&P 500. We believe further buying opportunities will present themselves given the lack of clarity in the economic outlook, and fragile sentiment.

Concerns within the European banking sector were one of the catalysts for the drop in markets, but these have evaporated for now. Recent European stress tests identified only a handful of entities requiring additional funding, most of those being regional Spanish institutions. Surprisingly only one Greek bank appeared on the list. The severity of the test has come into question, and doesn't give the market much comfort if there are further sovereign debt problems. These issues have not disappeared and concerns linger as to the effectiveness of the ECB's actions should a second crisis emerge.

As such we think further corrections are likely if not necessary before we can make any meaningful progress, and economic data may be the instigator of it. However, provided US growth remains in positive territory and liquidity abundant, we believe financial markets will eventually perform once again. Consequently we are maintaining our forecast for a broad trading range on the S&P 500 index of 950-1000 up to 1200-1250.

From a regional perspective we remain slightly more exposed to the Asian and emerging stock arena having cut these positions back at the beginning of the second quarter. Should we deem it appropriate to increase equity investment overall, we would still prefer these regions. Within developed markets our geographical preference would be for European stocks.

Real estate investment market sentiment has cooled following the eruption of the European sovereign debt crisis. In the UK, capital values rose just 1.8% in Q2 down from over 4.3% in Q1 2010. Property yields have stabilised in the UK and China, while the US is close behind having seen a significant jump in values during the first half of 2010. The underlying demand for prime real estate assets though remains strong, against a background of a large risk premium over real bond yields and better lending terms for long leased core assets.

We expect a resumption of capital growth on a 12-24 month view as occupier markets pull out of their down cycle, with vacancy rates now broadly at, or nearing a peak in Europe, the US and the Asia Pacific region. Prime rents are also stabilising with medium term prospects supported by a sharp drop in the construction pipeline, though the recovery will be gradual for most markets.

However, near term uncertainty clouds the US and European markets with respect to the economic outlook, and the overhang of a large volume of maturing real estate debt into 2011. Real estate financing conditions are not expected to show a considerable improvement for the wider market, which we think will present an opportunity for distressed asset purchases in the next year.