Market outlook

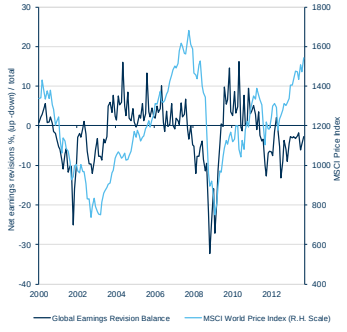
Joining the dots

Patrick Trueman

Standard Life Wealth

For use by individuals who are familiar with investment terminology. Please contact your adviser or your Client Portfolio Manager if you need any explanation of any of the terms used.

Markets pricing in good news

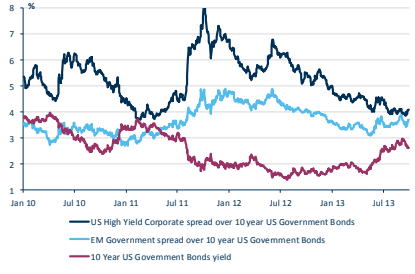


- Global equity markets have priced in an optimistic outlook
- US earnings growth has improved to about 5% pa although revenue growth remains mixed
- Free cash flow and dividends must remain supportive for equities to make further progress

Source: Nomura, Datastream as at 30 September 2013. Past performance is not a reliable guide to future performance.

2 Equity markets expensive versus earnings trends

Fixed income markets in a new phase

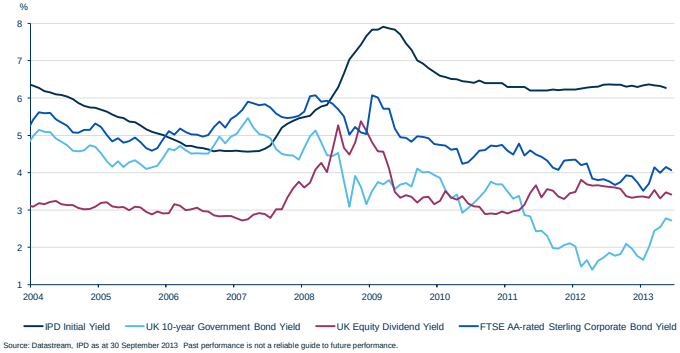


- Government bonds are expensive and pricing in the end to QE and eventual interest rate increases
- Corporate spreads vulnerable to a major bond sell-off or an asset class rotation
- Emerging market bonds vulnerable to a withdrawal of global liquidity and political tensions

Source: Datastream as at 30 September 2013. Past performance is not a reliable guide to future performance.

3 The rotation from credit to equity is underway

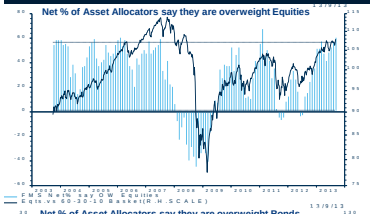
Sustainable yield is evolving

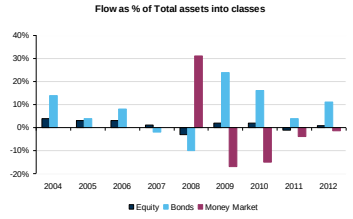


Source: Datastream, IPD as at 30 September 2013 Past performance is not a reliable guide to future performance.

Look for income opportunities while wary of valuations

Asset allocation & Fund Flows





- In early 2013 investor surveys showed more risk was being added to portfolios
- In the summer, investors became cautious, selling ETFs and moving out of emerging back into developed markets

Source: Bank of America Merril Lynch Global Fund Managers' Survey, 31 December 2012. Left hand charts 13 September 2013. Past performance is not a reliable guide to future performance.

Thematic long term drivers of change

Change is the constant, but opportunities exist

	Assets	Liabilities
Debt effects	Inflation threat could make equities more attractive; abnormally high savings at the corporate level needs to be run down	End of bull market for bonds which could mean the erosion of the real value of debt; acceleration of the appreciation of China's renminbi could raise concerns over lower demand for US Treasuries by Chinese (currently 1/3 of US treasury holding)
Shifting consumption / changing populations	Opportunity to gain exposure to energy, pharmaceuticals, healthcare, food, crop science, renewables in order to capitalise on trends	Strain on public resources could mean rising deficit
Increased connectivity	Increased margins as more tasks get automated; could lead to higher profitability for those firms who implement technology effectively	Traditional business models will be challenged
Resource constraints	Increased profitability of firms extracting raw materials could lead to creation of shareholder value (e.g. oil services, refiners, miners, cement manufacturers)	Rising price of raw materials and consequently the threat of inflation

Key area of transition

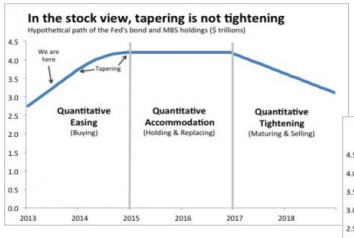
Debt effects

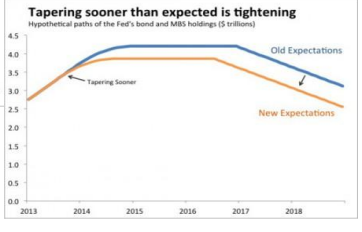
Since the onset of the financial crisis, many countries carry significant levels of debt which has the potential to impair their economic prospects.

In addition, most major central banks adopted unconventional monetary policies such as liquidity facilities and asset purchase programmes in an effort to stabilise markets and mitigate risks.

As the global growth outlook improves, what will the impact be on rates, levels of indebtedness and the emergence of developing economies on the global playing field?

What is tapering?

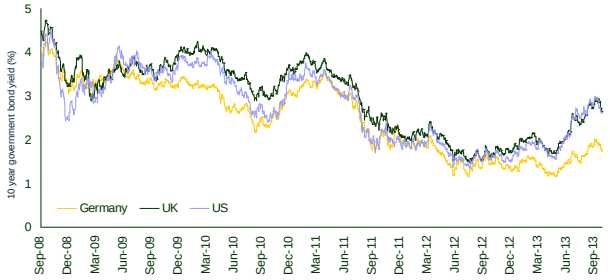




Source: Forbes, July 2013

Unprecedented asset purchasing
Bond yields

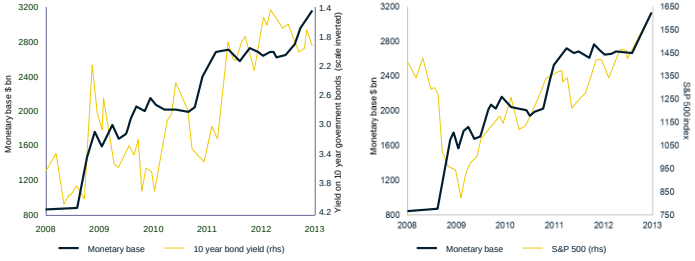
Central banks entered into unprecedented asset purchasing which aided a global compression in yields
10 year government bond yields by sovereign



Source: Datastream as at 30 September 2013. Past performance is not a reliable guide to future performance.

Forward Guidance

"A highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends." FOMC, June 18, 2013.



- Forward guidance can be risky – if markets assesses inflationary risks differently to central banks, credibility of policy makers will be damaged

Source: Federal Reserve and Standard and Poor's via Ecowin 24 July 2013. Past performance is not a guide to future performance

Key area of transition
Shifting consumption / Changing populations

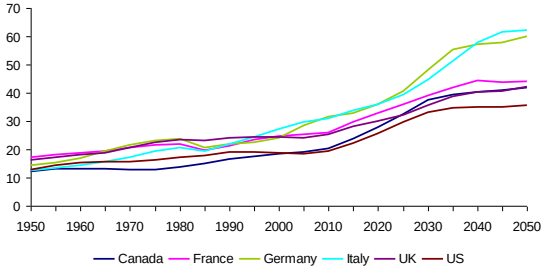
The global population is predicted to rise to 8 billion by 2025. With this will come increased levels of prosperity, but also, potentially, a growing disparity in income levels.

This has the potential to result in increased consumption of goods (e.g. food) but also in a structural shift in consumer trends. On the one hand, the luxury goods sector may benefit from higher rates of disposable income; on the other, however, value focused companies may benefit.

In addition, shifting dietary preferences may imply more strains on water resources; increased urbanisation, inefficient farming practices and climate change will impact land usage; and rising obesity may increase the market for certain drugs.

Populations are ageing

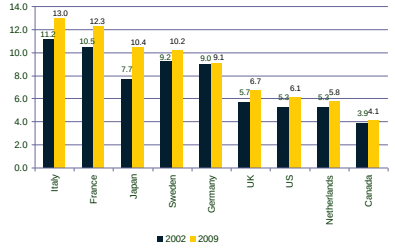
Across developed markets, populations are ageing…
Dependency ratio over time (%)



Source: OECD, Fiscal Implications of Ageing: Projections of Age-Related Spending. UN Data. Dependency ratio is the population over 65 as a percentage of the working age population (20-64). 20 August 2013.

Constrained public pensions

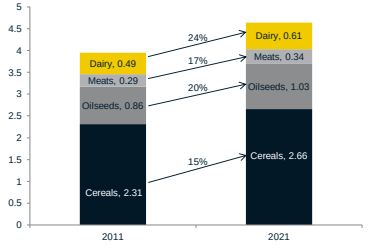
Affordability at a time of austerity will constrain public pensions
Old age social spending (public expenditures) as % of GDP



Source: OECD, Old Age Social Spending. 16 November 2012.

Food consumption

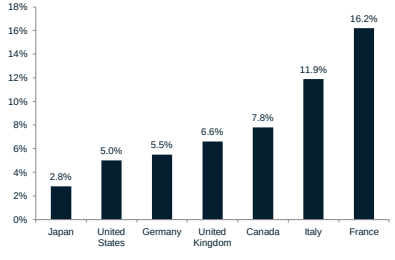
Over then next decade, global food consumption is expected to rise by 17%
Consumption, billion tonnes



Source: Food and Agriculture Organization of the United Nations. 12 June 2013.

Growth in obesity

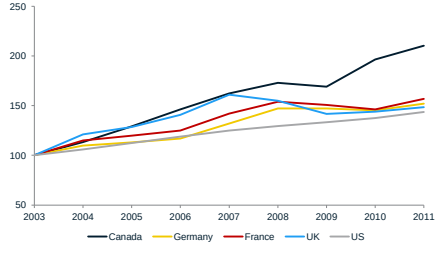
Rising trend expected to continue for at least the next decade…
Percentage growth in obesity (2011-20)



Source: Euromonitor, Passport Survey. 12 June 2013.

Rising healthcare costs

… which has contributed to rising healthcare costs
Per capita healthcare expenditure rebased at 100 (2003-2012)



Source: World Bank, World Development Indicators. Data in current US dollars. December 2012.

Key area of transition

Increased connectivity

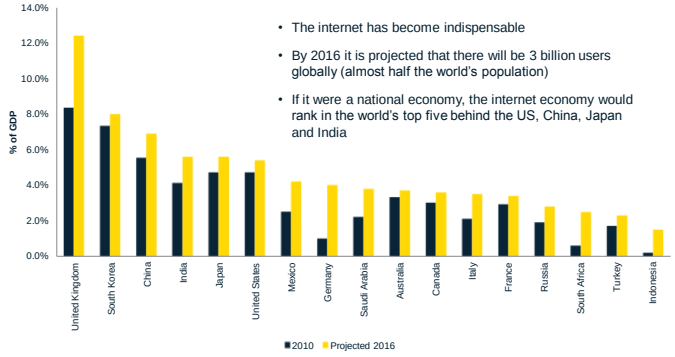
A range of technologies are making networks, systems, processes and products of all kinds increasingly responsive while making individuals, firms and nations more connected.

The enormous leaps in the capabilities of the technologies behind this advance enable the creation, capture and analysis of unprecedented amounts of data. This is transforming life styles and traditional business models.

Innovative companies are using this connectivity and data to continuously adapt their business practices, create sustainable competitive advantages, and challenge less agile incumbents across diverse sectors.

As such, as well as generating new opportunities, the pace and extent of change that is occurring can create significant risks for established companies across many sectors.

The internet economy



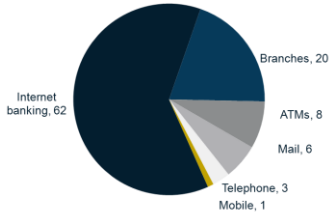
- The internet has become indispensable
- By 2016 it is projected that there will be 3 billion users globally (almost half the world's population)
- If it were a national economy, the internet economy would rank in the world's top five behind the US, China, Japan and India

Source: Boston Consulting Group, "The $4.2 Trillion Opportunity: The Internet Economy in the G-20." March 19, 2012. https://www.bcgperspectives.com/content/articles/digital_economy_internet_economy_keeps_growing/

Internet banking

The majority of customers already prefer internet banking…

Channel preferences of global users surveyed

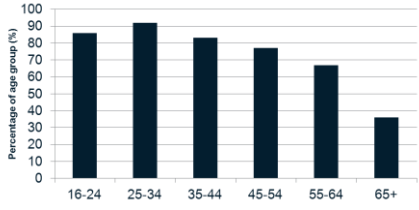


Source: American Bankers Association, 3 October 2013.

Internet age

…while younger generations are more likely to make purchases on the internet

Age preferences



Source: Office of National Statistics, Opinions and Lifestyle Survey 2013. August 2013.

Key area of transition

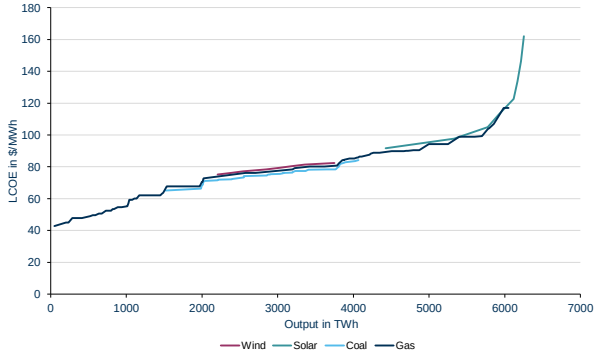
Shifting resource constraints

The end of the era of cheap energy points to a potentially volatile transition towards more energy-efficient models of economic activity. Higher energy costs are stimulating investment opportunities in both complementary and alternative forms of energy.

Furthermore the prospect of pricing parity of certain alternative energies in the years ahead is making the adoption of these technologies more likely.

Substantial improvements in productivity, technology, infrastructure, efficiency and conservation are required to offset the drag on economic growth and investment returns.

Higher Energy Costs



Source: Citi. LCOE (the levelised cost of energy) is the constant unit cost (per kWh or MWh) at which electricity must be generated from a specific source to break even over the lifetime of the project. TWh = TerraWatt Hour ; 1 terrawatt =1 trillion watts of energy.

High Energy Costs

Electricity costs (MWh per hour)		
	Industry	Households
Denmark	104.26	383.43
France	103.89	194.87
Germany	148.71	338.75
Japan	194.27	276.76
Norway	57.56	135.98
Sweden	89.19	223.96
UK	134.17	220.74
USA	66.98	118.83

Source: international Energy Agency 2013: Energy Prices and Taxes (Ed. 2013-09). 17 October 2013.

Frack to the future?

- Clean fuel
- Massively abundant
- Lower risk versus: nuclear power (leaks), coals (explosions), oil (numerous risks)

- Earthquake risk: land subsidence – is this any different than coal mines?
- Volume of water usage
- Speculation about water pollution

Who could benefit?

- Energy security: David Cameron - 'we will be more energy secure'
- Consumers: a possible reduction in energy costs
- Job creation: '600,000 jobs by the end of the decade' says Obama
- Landowners in the US vs the Crown in the UK

Global energy demand is forecast to grow by 35%, as the world's population expands from 7 billion today to 9 billion in 2040, led by growth in India and Africa

Source: "The Outlook for Energy: A view to 2040." Exxon Mobil., 20 March 2013.

Case Study

Denmark's wind farms

- In 1980 the Danish government was Europe's first to bring in large-scale subsidies to alternative energy providers (specifically wind farms)
- The aim by 2020 is to produce 35% of its energy needs from renewable sources (half of which will come from wind power)
- The progress so far has been dramatic:
  - There are more than four thousand onshore turbines (2/3 more than the UK)
  - Denmark is now the global centre of wind turbine manufacturing
- However Danes do pay some of the highest energy tariffs in Europe (more than double that of the average UK home)
- Subsidy cuts are possible and wind farms are moving offshore

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Conclusions

What the future may bring:	Unconventional monetary policies cannot continue ad infinitum	The pace of change remains rapid and is likely to accelerate
The end of cheap energy may mean a volatile transition towards more energy-efficient models	Shifting consumption of goods and services will have huge impacts on resources	Technology is increasing responsiveness, transforming lifestyles and business models

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.