



## RICHARD BERNSTEIN ON THE US

# Current monetary policy will have to end soon

### Bull and Bear points

Generous liquidity policies continue to fuel rally in equity markets

The Greek situation reiterates that markets remain fragile

High-quality companies are generally not too expensive

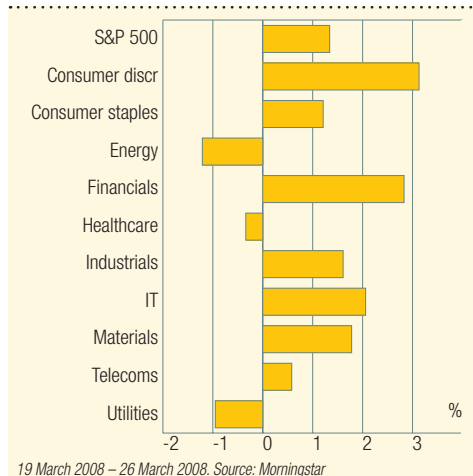
Protectionist sentiments continue to build

Few things are certain in this world, but interest rates have been going down steadily in the US since 1981. Despite the Federal Reserve's pursuit to keep rates artificially low in an attempt to fend off broad-based deflation, current monetary policy will have to end sooner or later.

When you consider foreign demand for US Treasury debt may be waning as the US general government debt approaches 100% of GDP, we remain ever mindful yields have potential to reverse their 29-year course.

For years, the private market has encouraged deficit financing by loaning its capital to OECD countries at very attractive rates. However, unprecedented govern-

### S&P 500 sector returns



19 March 2008 – 26 March 2008. Source: Morningstar

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ment intervention as a means of preventing a global economic collapse has resulted in an explosion of sovereign debt. The consequences of these debt levels are still anyone's guess. We note, however, lenders have begun to flinch. Greece's debt crisis has markets asking if sovereign countries are now too big to fail. Should a loss of confidence permeate credit markets, a somewhat sudden, tangible spike in nominal interest rates could result.

Historically, our investment discipline gives little weight to macroeconomic or market prognostications, instead focusing on the bottom-up analysis of indi-

vidual companies' prospects. We do, however, believe interest rate risk remains firmly on the table, and the framework is about to shift to one where making money in equities requires a more selective approach. Strategically, we have begun to sharpen our focus on high-quality companies whose business activities require little access to external financing.

We believe those companies that depend heavily on debt and equity financing to sustain future growth will likely underperform those that finance their business activities through continuing operations. Also, we remain focused on blue-chip companies that provide essential goods and services and possess the ability to pass through costs in an inflationary environment.

The good news for investors is the valuations and earnings expectations for many of these high-quality companies are much more reasonable than those of the broad market. Given their inherently better business fundamentals, we believe these companies should provide solid returns in a world with gathering headwinds. Richard Bernstein is manager of the Brown Advisory US Equity Value fund

### (IMA) North America: over three years

| Top 5                                | 3yr % Chg    | Rank      | Volatility (monthly) | Fund size (m) (£) | Morningstar Rating™ |
|--------------------------------------|--------------|-----------|----------------------|-------------------|---------------------|
| Neptune US Opportunities A           | 37.69        | 1         | 5.54                 | 542.99            | ★★★★★               |
| Schroder US Mid Cap Acc              | 33.64        | 2         | 5.7                  | 390.05            | ★★★★★               |
| Allianz RCM US Equity A              | 28.85        | 3         | 5.85                 | 35.3              | ★★★★                |
| CF Canlife North American            | 27.77        | 4         | 5.56                 | 110.99            | ★★★★                |
| Jupiter North American Income Inc    | 27.46        | 5         | 5                    | 284.44            | ★★★★                |
| Bottom 5                             |              |           |                      |                   |                     |
| Old Mutual North American Equity     | -4.12        | 59        | 6.17                 | 82.86             | ★★★                 |
| L&G (Barclays) MM US Alpha (2) A Inc | -5.3         | 60        | 6.12                 | 151.81            | ★                   |
| M&G North American Value A Inc       | -7.06        | 61        | 7.97                 | 78.58             | ★★                  |
| Franklin Mutual Shares A Acc         | -19.6        | 62        | 6.35                 | 15.51             | ★                   |
| Legg Mason US Equity A               | -24.77       | 63        | 7.6                  | 125.16            | ★                   |
| <b>Sector average</b>                | <b>12.31</b> | <b>63</b> | <b>5.78</b>          | <b>220.79</b>     |                     |

Performances calculated bid to bid, net income re-invested, GBP to 26/03/10. Data Source: © 2010 Morningstar, Inc. All Rights Reserved.