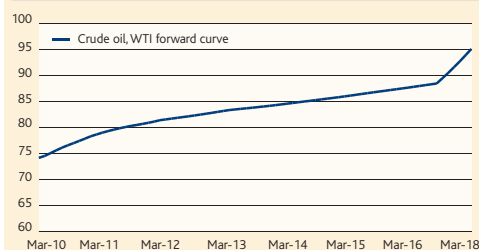


Global Investment Outlook

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

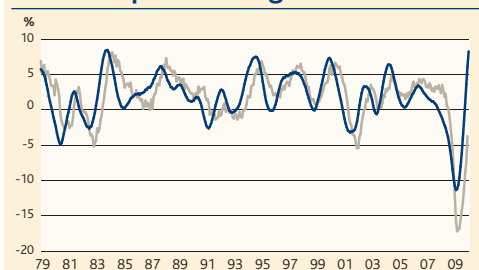


The oil market remains in contango indicating slack



Source: FactSet 17 Feb 2010

Global leading indicators have yet to roll over pointing to continued industrial production growth



Source: Bloomberg 17 Feb 2010

Key forecasts	US	Japan	Euro-zone	UK	China	Global
GDP rolling						
12m forecast	2.4	0.8	0.8	1.6	9.6	2.3
Consensus	2.9	1.3	1.3	1.6	9.6	2.8
CPI rolling						
12m						
forecast ^A	1.7	(0.9)	0.7	2.3	3.4	1.2
Consensus	2.2	(0.9)	1.2	2.3	2.9	1.5
Current Base						
Rates	0 -	0.25	0.10	1.00	0.50	5.31 ^B
Monetary						
Policy (3m)	0.15	0.10	1.00	0.50	5.31 ^B	-
Monetary						
Policy (12m)	0.70	0.10	1.00	0.50	5.58 ^B	-
10 Yr bond						
Yields (12m)	4.00	1.66	3.50	4.50	n/a	-

^A core rate ^B PBOC 1 year Yuan Lending Rate

Source: Aberdeen Asset Managers Ltd

Asset allocation	Deviation ^c (%)
Equities	
- UK	(1.0)
- US	0.0
- Japan	1.0
- Europe ex UK	1.0
- Asia	2.0
- Emerging Markets	2.0
Fixed Income	
- Conventional	(4.0)
- Index Linked	(1.0)
Property	0.0
Cash	0.0

^c Deviation refers to a % over or underweight vs. our core multi-asset benchmark.

Source: Aberdeen Asset Managers Ltd.

Executive Summary

- Core inflation rates to remain contained globally
- G7 monetary accommodation will persist despite debate over 'exit strategies'
- Budget deficits will sustain pressure on government bond yields

Global growth is still classified as fragile by most supranational bodies, and fiscal stimulus is unlikely to be removed quickly as a consequence. The immediate prospects for output seem good, but final demand from the consumer remains uncertain, being either stimulated by temporary tax concessions or fiscal measures to sustain employment. Forward looking indicators in Asia and the emerging world still point to robust activity despite some minor reaction in China to tighter credit conditions. This cements the divergence in growth rates between the developed and developing world.

Consequently output gaps within the major industrialised countries are still wide leading to subdued core inflationary pressure. Inflation rates in some Asian and emerging countries are rising faster but we do not expect this to be a widespread problem as long as some stimulus is removed.

We still believe that 2010 will prove to be a year of consolidation, with riskier assets performing better than cash and the bellwether S&P500 confined to a broad range of 950-1000 up to 1200 - 1250.

The key risk to our view remains an unexpected rise in risk free rates specifically government bond yields, but this is not our base case.

Mike Turner

Head of Global Strategy & Asset Allocation, and manager of Aberdeen Multi-Asset Fund

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Global Investment Outlook

Global fiscal policy still a prop to growth

US output may sustain economy into Q2

UK growth prospects still uncertain

Japanese income growth hampering recovery

Commodity price rises still capped by excess supply

Economic and Market Outlook

Global economic data points to healthy activity in the weeks ahead but final demand still demonstrates dependence upon government support, a view endorsed at the Davos World Economic Forum by Dominique Strauss-Kahn of the IMF. Budget deficits are a concern but premature exit from expansionary policy could derail any recovery, thus rendering any substantial tightening at this point a low risk.

US

In the US, indicators such as the ISM manufacturing index reached levels not seen since 2004, indicating continued growth of output prompted by further corporate re-stocking. However housing activity has not yet regained its buoyancy prior to the initial November cut off of tax credits, leaving open the question of growth sustainability. Job losses have begun to moderate, but employment is still declining and capacity use remains low.

Europe including UK

The UK economy grew 0.1% in Q4 2009, remaining constrained by the financial services sector. The evidence during January is that even this meagre level of growth may have lost some momentum, with the sales tax rise and poor weather affecting activity. Impending income tax hikes will make it difficult for the consumer to thrive, despite improving confidence and greater stability in housing.

Euro-zone growth has also started the year inauspiciously as the Purchasing Managers Index composite (between manufacturing and service sectors) fell for the first time in almost a year. We don't expect a renewed dip in growth, but it does emphasise the reliance upon exports that the region still has. The consumer does not offer much support, and remains the 'Achilles heel' of Euro-zone recovery. Some impetus may develop from German income tax cuts, but details here are sketchy.

Japan

Consumption strength in Japan has been hampered by falling incomes. Recent data showed cash earnings by individuals falling by 6.1% in 2009, although household spending overall grew by 1.8% in the final quarter. Manufacturing surveys demonstrate some pull back at the start of the year similar to the situation in the Euro-zone. The Japanese recovery is still reliant upon exports, which is threatened by persistent yen strength.

Asia and Emerging Economies

GDP reports from the People's Bank of China confirm the accelerating pace of growth (11.3% annualised in Q4). This should continue despite the recent downtick in Purchasing Manager surveys, with other countries such as Korea benefiting similarly from global re-stocking. India should see a pickup in growth from 6.5% to almost 8% in 2010, propelled by consumption and private sector investment.

Within the EMEA region Russia and South Africa should post more modest growth this year due to less durable domestic demand. Conversely Latin American countries in general will benefit from continued buoyancy in commodity markets, combined with better domestic demand.

Commodities

Commodity markets have benefited significantly from Exchange Traded Fund (ETF) flows and Commodity Trading Adviser (CTA) positioning. Long term fundamentals will be supportive as global growth recovers, but we feel that prices reflect that in the short run. A few key markets remain in contango, indicating adequate supply.

Core Inflation remains subdued in line with slack labour and product markets and we expect it to continue so. Headline rates are elevated in the Asian and emerging regions but even here we do not see an endemic problem just now.

Global Investment Outlook

Bond Yields, Currencies and Monetary Policy

The Federal Reserve reaffirmed its intention to keep rates low for an extended period. In recent congressional testimony Chairman Bernanke also detailed the means by which the Federal Reserve may absorb excess liquidity held as reserves within the central bank. However the 'exit strategy' will focus on unravelling unorthodox policy measures first such as the Treasury Auction Facility (TAF) before tackling reserves. Short term rate hikes will be last on the agenda.

UK monetary policy looks set to be super-accommodative for much longer than anticipated. Indeed the Bank of England Governor recently emphasised the possibility of a double dip recession, implying the emphasis of policy will continue to be on supporting growth. Whilst there is still a large output gap, underlying inflation pressures are scarce.

Euro-zone monetary policy should follow a similar path to both the US and UK. The European Central Bank (ECB) may tweak the stance of some key reference rates such as Eonia (Euro Overnight Index Average) which trade below the 'refi' rate of 1%, but this should not be seen as a general policy shift. In fact we believe the ECB may be one of the last within the G7 to move its 'refi' rate.

Although the Bank of Japan's unprecedented statement to target inflation caught investors by surprise, it is unlikely to have any real impact on Japan's persistent deflation. Confusion over the government's stance on the exchange rate will only heighten uncertainty sustaining the effective 'ZIRP' (zero interest rate policy) that they employ until H2 2011.

Larger reserve requirements have supplemented money market rate shifts in Chinese monetary tightening. The key question surrounds the extent that the authorities want to restrict credit. We believe they will do more in a steady and progressive fashion, until growth in monetary aggregates (currently over 20%) is consistent with GDP of 8–10%.

Persistent worries over sovereign credit risk coupled with a lapse in demand from quantitative easing may sustain immediate upwards pressure on government bond yields. But low core inflation and commercial bank purchases should cap any rise. We stick with our broad trading range for yields in the major markets ex-Japan to 3–4% however this upper bound could be broken later in the year.

The peripheral European government markets of Spain, Ireland, Italy, Portugal and Greece have suffered from fiscal problems but most of the risk is now discounted. One noticeable development has been the contagious impact on the corporate markets (both industrial and financial issuers) within those countries. Anxiety may continue for a while, but we view this as a buying opportunity.

As far as individual sectors are concerned, banks continue to be under pressure from all sides, not least the recently announced intentions of international regulators to redefine bank capital requirements. However, we do not believe regulators will deliberately act to impose rules that will have a seriously detrimental effect on economic recovery before it is well established. We expect pragmatism to prevail and for the ultimate impact on bank credit strength from regulation to be more limited than currently anticipated by some.

Emerging debt markets have suffered as investor risk appetite declined during the last month. This should prove a temporary setback for this asset class, as improving creditworthiness is still in train. We still prefer higher yielding sovereigns, and do not anticipate lasting US dollar strength to undermine performance.

The euro has suffered from the Greek credit risk problem, which in turn has prompted a general market correction and lent the dollar strength. This has largely run its course and should investors enthusiasm for risk start to re-kindle we would anticipate renewed dollar depreciation. Longer term levels of E/\$ 1.60 and £/\$ 1.70 are possible, as well as considerable high yield currency strength (Asian and Latin American).

US Federal Reserve details 'exit strategy'

Bank of England acknowledges chance of a 'double dip' recession

China raises reserve ratio requirements

Euro-zone government risk premiums price in credit deterioration

Euro currency discounts constituent country debt problems

Global Investment Outlook

Equity correction should not derail performance of riskier assets

US Real Estate yields stand out in global market

Equity and real estate

The correction in equity markets that we have anticipated for several weeks has finally appeared. The S&P500 fell almost 10% from mid-January's high of 1150 to an intraday low of 1044. This is a healthy, and in our view necessary, correction to enable the market to make more progress in the medium term. Sentiment remains unsteady though so further consolidation during the remainder of this quarter may ensue, as investors adjust to the new monetary policy stance in Asian and some emerging countries.

Chairman Bernanke's pronouncements over the 'exit strategy' will place a keener focus on risk free rates for their impact on equity valuations as the year progresses, but we don't believe there is any imminent threat from this source. We also suspect the principal threat comes from the nature of any rise in long bond yields, with an abrupt move upwards potentially the biggest concern rather than any progressive increase.

PE ratios based on consensus forward earnings forecasts remain about average for the last twenty years for stocks in the MSCI world index, which implies there is no compelling valuation argument to disinvest. Meanwhile dividend yields remain attractive (particularly in Asia), and dividend cover is increasingly secure as earnings recover, providing attractions amidst a background of low short term rates.

Aggregate price to book values are not stretched either whilst free cash flow has improved rapidly since the global economy began to stabilise giving additional support to debt servicing and thus balance sheets. This could turn into a virtuous circle over time which proves the antithesis of corporate problems at the height of the financial crisis.

Overall though we still maintain our view that this year will be one of broad consolidation in stock markets and other risk assets in general, with a wide trading range for the bellwether S&P500 of 950-1000 up to 1200-1250. Our global equity portfolios turned more defensive in the early part of this year which is the appropriate thing to do given increased uncertainty. Astute stock selection, with a concentration on value and quality is likely to prove invaluable.

Within real estate markets, interest has returned to all regions of the globe led recently by a sharp upturn in Asia. A modest recovery is underway also in continental Europe and the UK but activity in the US has been slow to pick up reflecting restrictive access to debt financing in the CMBS arena.

Relative to risk free assets, values look attractive in most regions with the US beginning to stand out as prices improve in parts of Europe and Asia. Better financial market conditions are expected to push up capital values for prime buildings more widely in 2010 but as we allude to above, we see some risks for next year as monetary policy begins to tighten. However we juxtapose this with apparent investor concerns regarding higher medium-term inflation which has led institutions to look to commercial real estate investment as a potential inflation hedge.

Minimal new development in the next few years increases the attractions of the sector but we don't expect market rents in Europe and the US to show a revival until late 2011 and 2012 as the current overhang of vacant space needs to be worked off. A key exception is the London office market where vacancy rates seemed to have already peaked and the rental market is stabilising.

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