

NEWSLETTER

January 2012



2011: A mutation has started...

2011 was a year of many events and changes. Some of these events will have repercussions for years to come, and some of the changes are the result of what had started since the 2008 crisis.

The Japanese earthquake and the following tsunami questioned the future of nuclear power. Before the world came to grips with this natural catastrophe, other events of seismic proportions were to unfold around the world.

Undoubtedly, the USA losing its AAA rating was one of them, an event brought onto by themselves through bi-partisan politics on the debt ceiling negotiations.

Then, events that have retained the most attention are without a doubt the “Arab spring”. What started in Tunisia with fall of Ben Ali took traction throughout the Arab world and saw the end of decades of tyranny sort of regimes and swept the likes of Mubarrak, Kaddafi, and is now coming to grips with Syria’s Al Assad. Every single country in the Middle East and North Africa had to address in one way or another changes to their governance and lend an ear to the street. Even Russia’s Putin is now a contested future leader, which would have been unthinkable few months ago. These events will undoubtedly bring a new equilibrium in those regions, with new players taking to the queue.

The changes that were in the pipeline since the 2008 crisis saw the end of Berlusconi, Papandreou, Zapatero and most likely we will witness further changes in 2012. The culmination of the Euro zone’s sovereign debt problem, with the insolvency of Greece, than the potential insolvency of Italy, the stress on the Spanish debt further eroded the credibility of the euro as a currency. The departure of Trichet as ECB’s governor certainly brought some fresh air with Draghi’s nomination. However, the honeymoon never managed to start; the reality of the dire state of affairs in Europe being too big to ignore. The changes that we are witnessing as the world order is reshaping itself are immense. IMF and the Emerging countries are called to lend a hand to crumbling Europe. It wasn’t long ago that this order was the other way round. The non-emergence of a strong European leadership in a period of needed guidance is eroding the little confidence left in the politicians. Europe never managed to show a united front to its problems, each blaming the other, symbolized by the UK isolating itself further from Europe. One cannot remember a period in world politics where leadership was so weak in Europe and in the USA.

The hope of an economical recovery in USA is now threatened by Europe's lack of response to its sovereign problems. From where will growth come to pay for the debt with austerity packages and shrinking European bank's balance sheets? Furthermore, China now shows signs of serious slowdown, and India is in the middle of readjusting an economy without much success. The South American economies are also showing slowdowns, albeit less serious than the big economies. However, social tensions are on the rise and so are geo-political tensions.

To finish off the year, China has now started what was inevitable; the Yuan trade with its neighbors. Japan and the southern economies will settle their trades with their own currencies. This is also the first step of buying less US Treasuries by Japan and China in the future, holders of over 40% of all the US Treasury's debt. And, Brazil overtaking the UK as the 6th largest world economy in the last days of 2011 will no doubt bring credence to a reshaping world.

Undoubtedly, the birth of a new era is upon us...

2012: A year of Challenges...

The Q1 2012 will be focusing around Europe and markets will trade around new measures to tackle the debt burden, Italy and Spain's cost of funding, pricing of a European recession and its eventual contagion impact to other nations, such as the USA. The triggering of a credit event is not out of the woods also, by Greece, and its implications on the CDS and banks will be high.

The eventual degradation of world growth will take hold, with sovereign debts, commodities and some currencies (emerging currencies such as TRY, BRL, INR) being the less favorable investment areas.

In our view after Q1, It is also a possibility that USA triggers another round of Quantitative Easing, as well as UK with the ECB highly likely to go down this route.

Further loosening monetary policy in Europe is expected and more of the same in USA.

Depending how the European problems are solved and how quickly, could have a significant end to 2012.

RAMCapital in 2012:

We have finished the year with approximately 30-40% cash, a move that had started at the end of summer 2011. We believe that we will unfold this cash in weeks to come as there will be investment opportunities. However, our asset allocation methodology will take into account the changing markets, credits and liquidity. Thus, our approach to portfolio management will be different.

Fixed Income: We will decrease our favored “Buy&Hold” strategy to around 25-30% from 40-50%. The core Fixed Income portfolio will still reflect mostly good emerging market governments and corporate but we will add investment grade corporate debt with medium duration as we don’t foresee a monetary policy change risk in EU and USA.

Equities: Dynamic management mainly on indices, with put spreads or call spreads. This has served us well in the 2nd part of 2011.

Commodities: We will keep our positions in commodities, which are mainly Gold. We will defend this position with options and further improve the average cost price of positions. We would be tempted to increase allocation up to 15-20% at some strategic price, as we still expect Gold close to 2000 in the medium to long term.

Cash: Although cash allocation will still be high, around 20%, the exposure of our equity strategy will increase the exposure of the portfolio to markets.