

# Still on the road

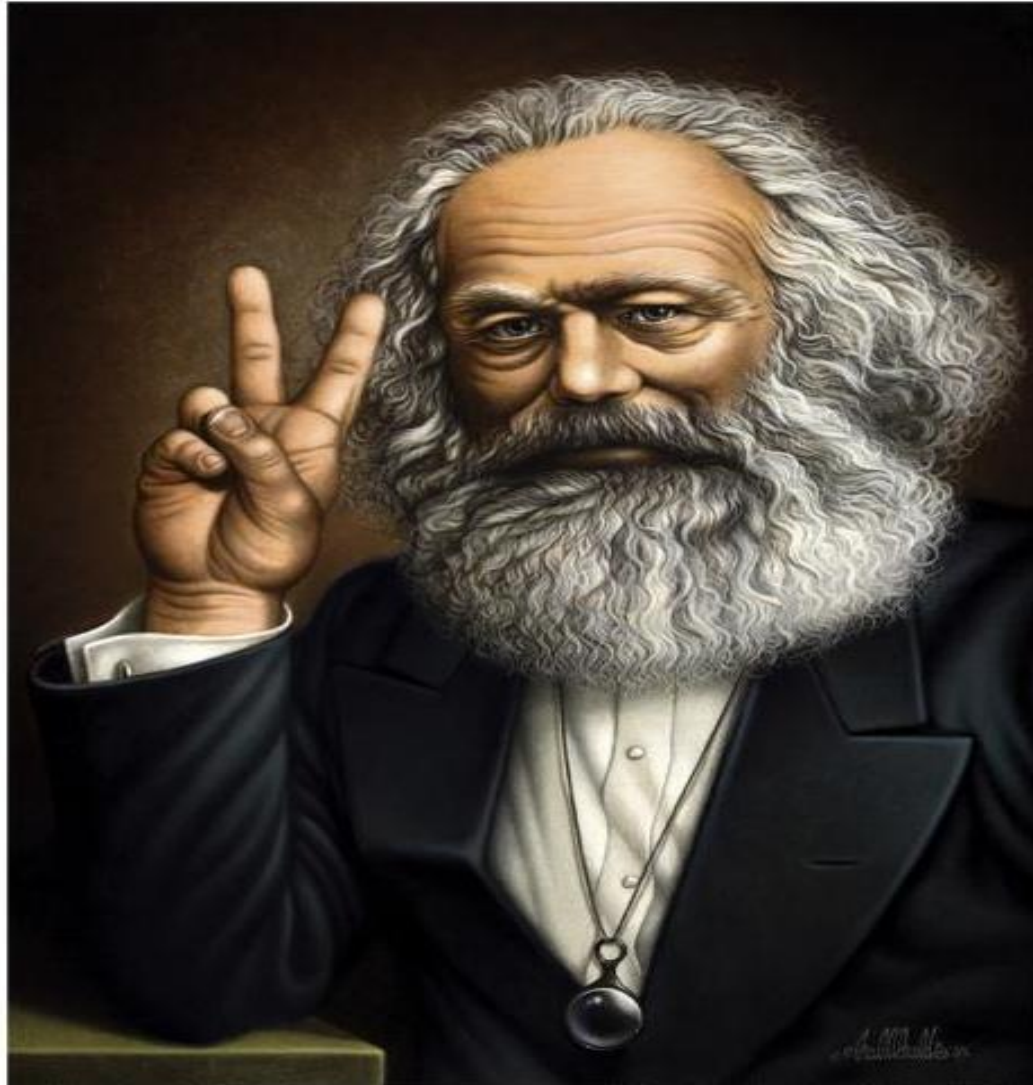
## The global economy and markets in 2010

**Henk Potts, Vice President**

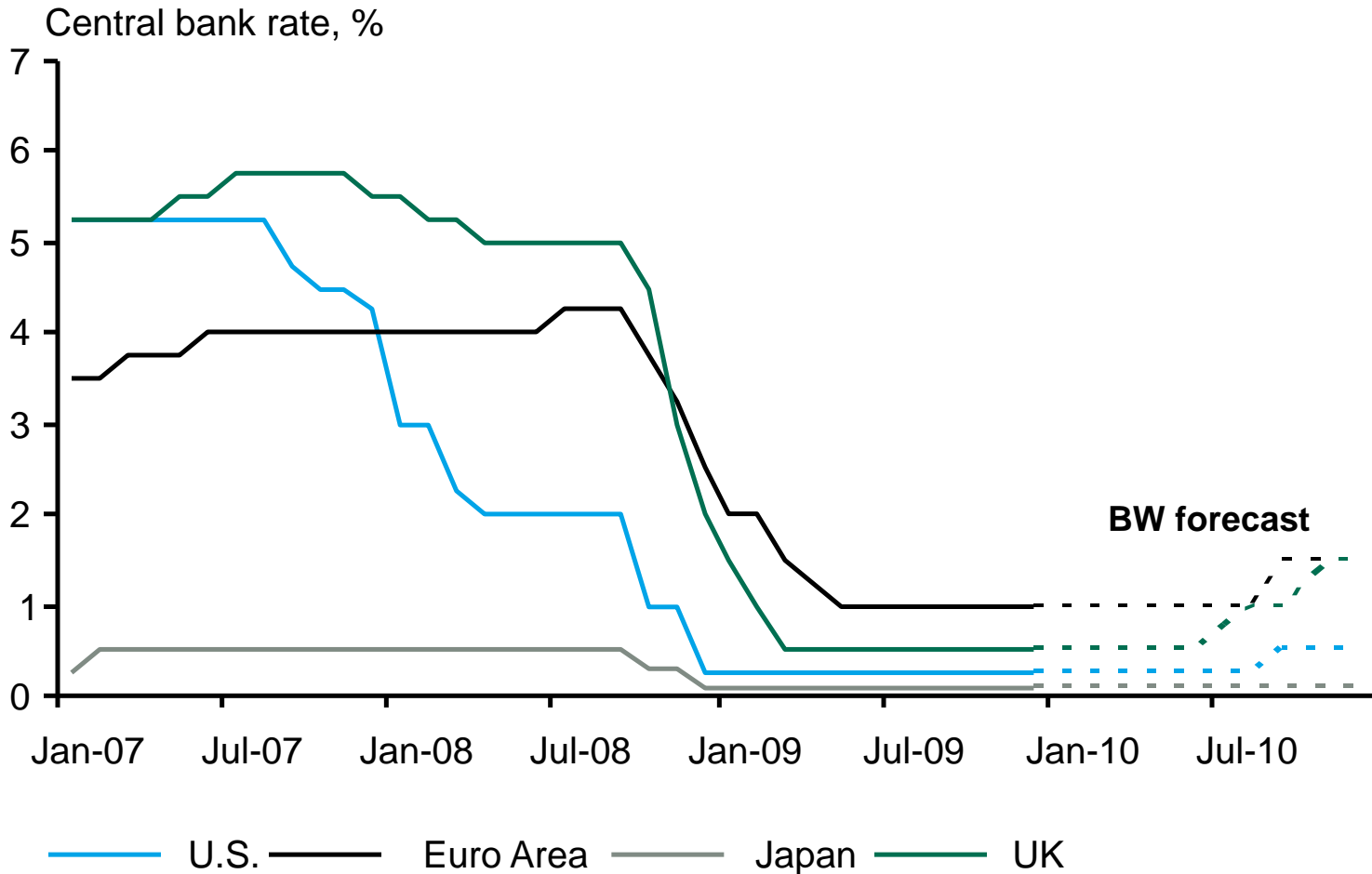
# It was all predicted.....

- ***"Owners of capital will stimulate working class to buy more and more of expensive goods, houses and technology, pushing them to take more and more expensive credits, until their debt becomes unbearable.***
  
- ***The unpaid debt will lead to bankruptcy of banks which will have to be nationalized and State will have to take the road which will eventually lead to communism."***

# Karl Marx



# Authorities have worked hard



Source: Datastream, Barclays Wealth Strategy and Economics

# US forecasts

% y-o-y except where stated

	2008	2009	2010F	2011F
<b>GDP</b>	<b>0.4</b>	<b>-2.5</b>	<b>3.0</b>	<b>3.1</b>
<b>CPI</b>	<b>3.8</b>	<b>-0.4</b>	<b>1.4</b>	<b>0.5</b>
<b>Official interest rate (%)</b>	<b>0-0.25</b>	<b>0-0.25</b>	<b>0.75</b>	<b>4.00</b>
<b>10-year yields (%)</b>	<b>2.22</b>	<b>3.84</b>	<b>4.5</b>	<b>5.50</b>
<b>S&amp;P 500</b>	<b>-38.5</b>	<b>23.5</b>	<b>10.3</b>	<b>4.0</b>
<b>Trade-weighted \$index</b>	<b>4.4</b>	<b>-5.7</b>	<b>1.6</b>	<b>-0.4</b>

# Euro-area forecasts

**% y-o-y except where stated**

	<b>200 8</b>	<b>200 9</b>	<b>20 10F</b>	<b>2011F</b>
<b>GDP</b>	<b>0.5</b>	<b>-4.1</b>	<b>1.0</b>	<b>1.0</b>
<b>CPI</b>	<b>3.3</b>	<b>0.3</b>	<b>1.0</b>	<b>1.5</b>
<b>Official interest rate (%)</b>	<b>2.50</b>	<b>1.00</b>	<b>1.00</b>	<b>2.00</b>
<b>10-year yields (%)</b>	<b>2.94</b>	<b>3.40</b>	<b>3.75</b>	<b>4.30</b>
<b>Euro STOXX 50 index</b>	<b>-44.4</b>	<b>21.1</b>	<b>5.3</b>	<b>3.6</b>
<b>Trade-weighted € index</b>	<b>4.1</b>	<b>-2.2</b>	<b>-5.4</b>	<b>-2.3</b>

# UK forecasts

**% y-o-y except where stated**

	<b>200 8</b>	<b>200 9</b>	<b>20 10F</b>	<b>2011F</b>
<b>GDP</b>	<b>0.5</b>	<b>-4.9</b>	<b>1.5</b>	<b>2.0</b>
<b>CPI</b>	<b>3.6</b>	<b>2.2</b>	<b>2.1</b>	<b>1.0</b>
<b>Official interest rate (%)</b>	<b>2.00</b>	<b>0.50</b>	<b>0.50</b>	<b>3.00</b>
<b>10-year yields (%)</b>	<b>3.02</b>	<b>4.01</b>	<b>4.75</b>	<b>5.75</b>
<b>FTSE 100 index</b>	<b>-31.3</b>	<b>22.1</b>	<b>7.6</b>	<b>4.0</b>
<b>Trade-weighted £ index</b>	<b>-24.6</b>	<b>8.8</b>	<b>5.0</b>	<b>6.5</b>

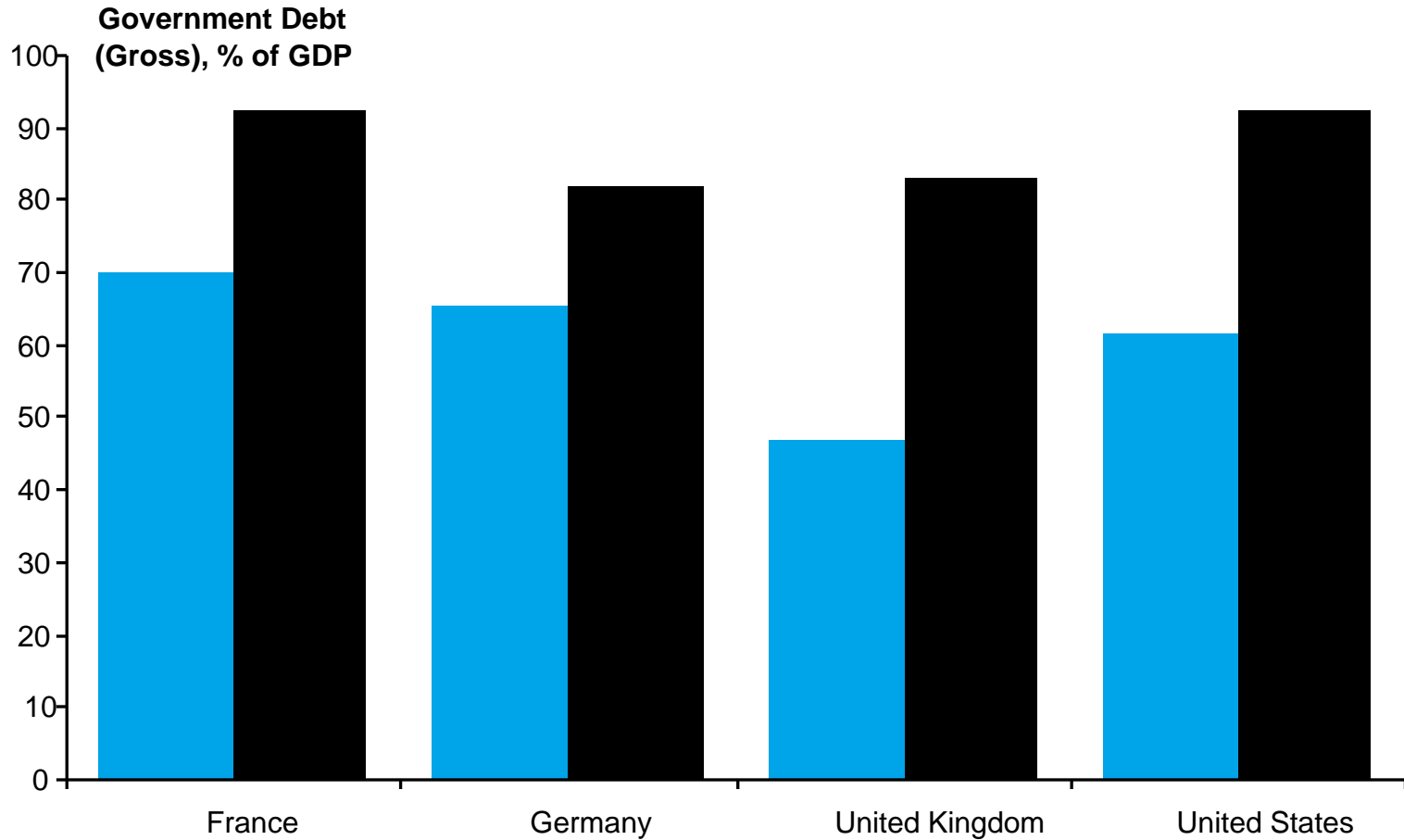
# China's forecasts

**% y - o - y except where stated**

	<b>200 8</b>	<b>200 9</b>	<b>20 10F</b>	<b>2011F</b>
<b>GDP</b>	<b>9.0</b>	<b>8.7</b>	<b>9.9</b>	<b>9.3</b>
<b>CPI</b>	<b>5.9</b>	<b>-0.7</b>	<b>3.4</b>	<b>3.5</b>
<b>Official interest rate (%)</b>	<b>5.31</b>	<b>5.3 1</b>	<b>5.85</b>	<b>6.12</b>
<b>Shanghai SE index</b>	<b>6.4</b>	<b>10.9</b>	<b>7.8</b>	<b>7.6</b>
<b>USD/CNY</b>	<b>6.8 2</b>	<b>6.83</b>	<b>6.60</b>	<b>6.30</b>

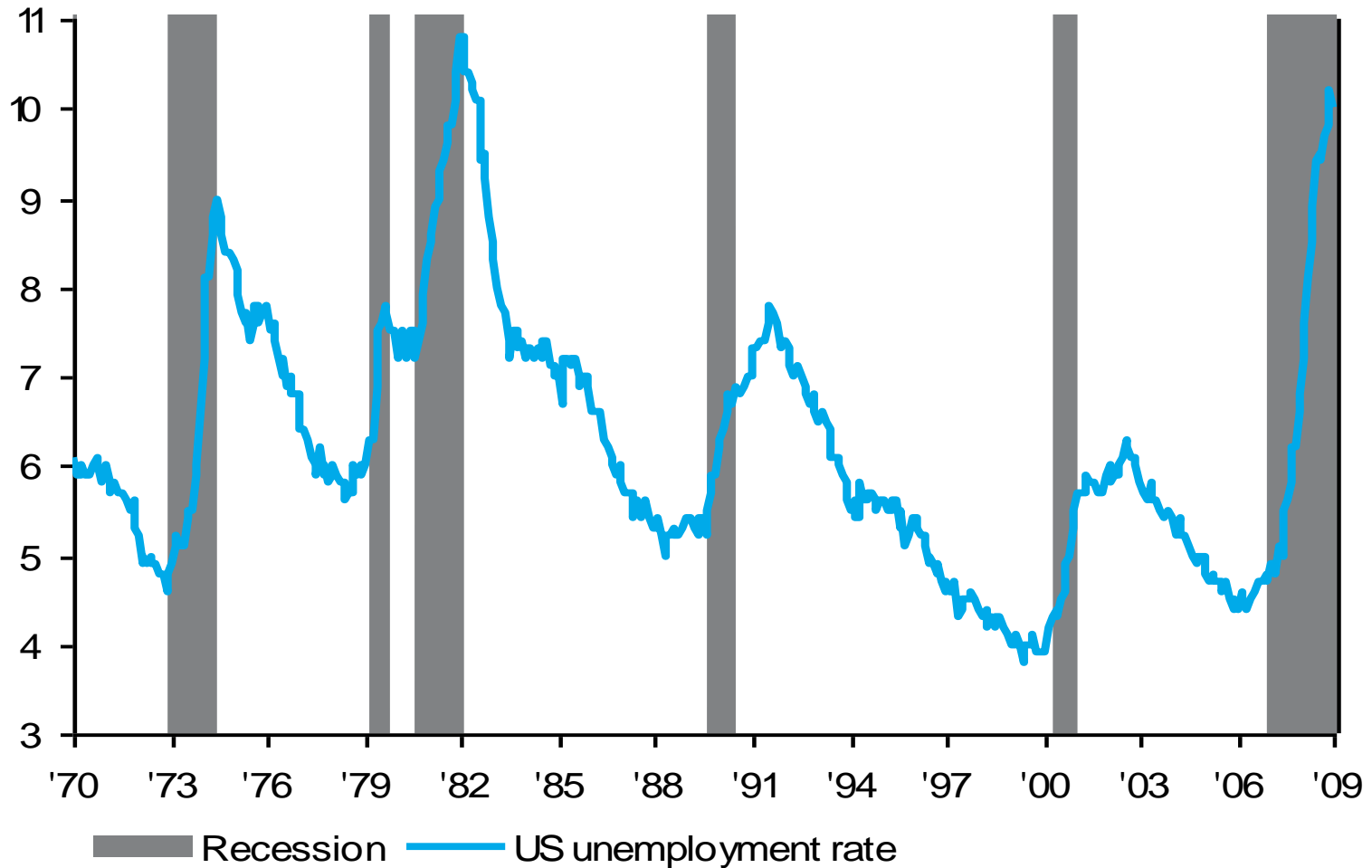


# Governments have to refuel



Source: Datastream, Barclays Wealth Strategy, OECD

# Unemployment will act as a further brake on consumer confidence

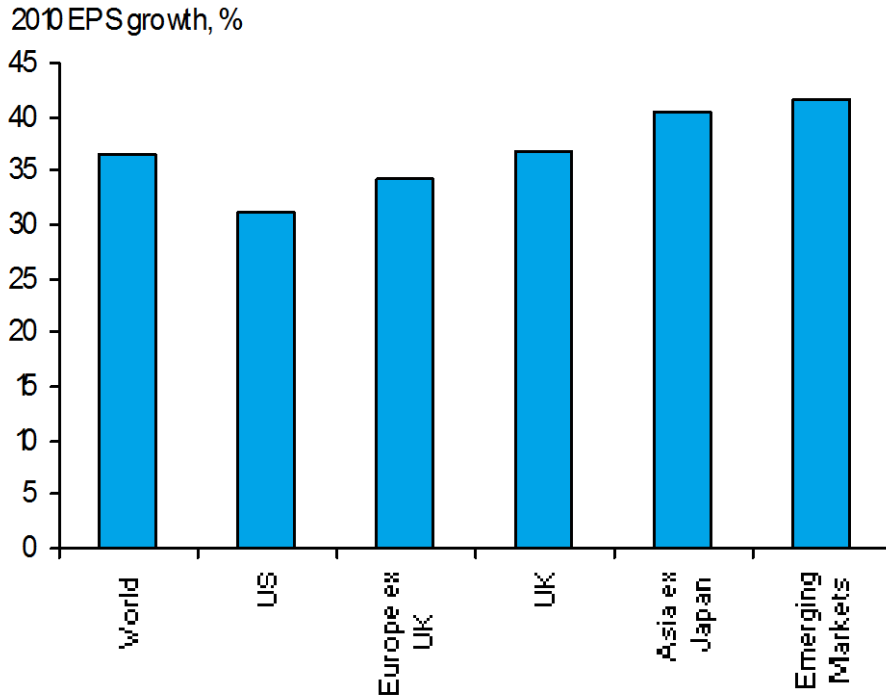


Source: Datastream, Barclays Wealth Strategy

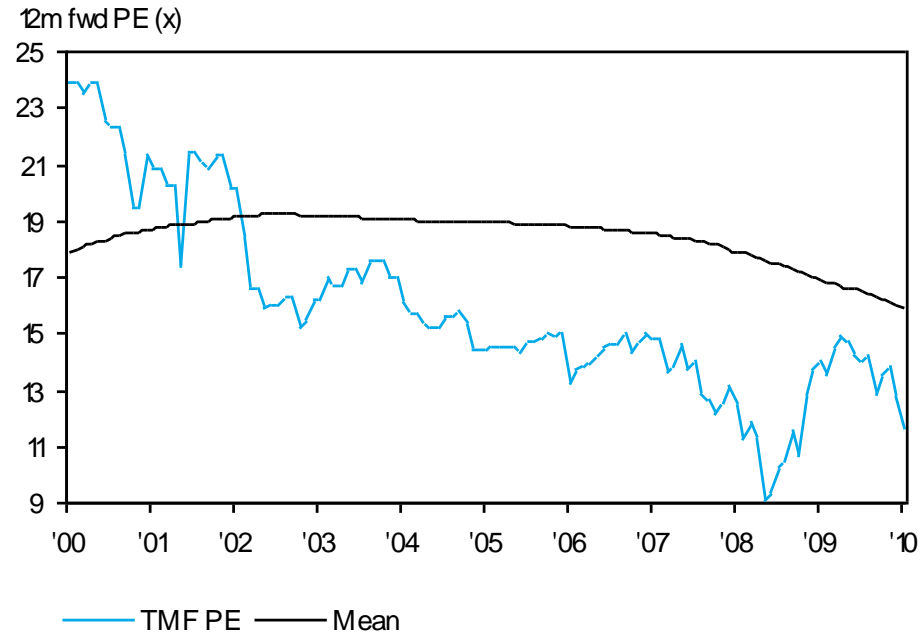
# Equities: Profits, liquidity and valuations suggest they have further to travel

Strong earnings growth is expected 2010

Valuations don't look stretched,

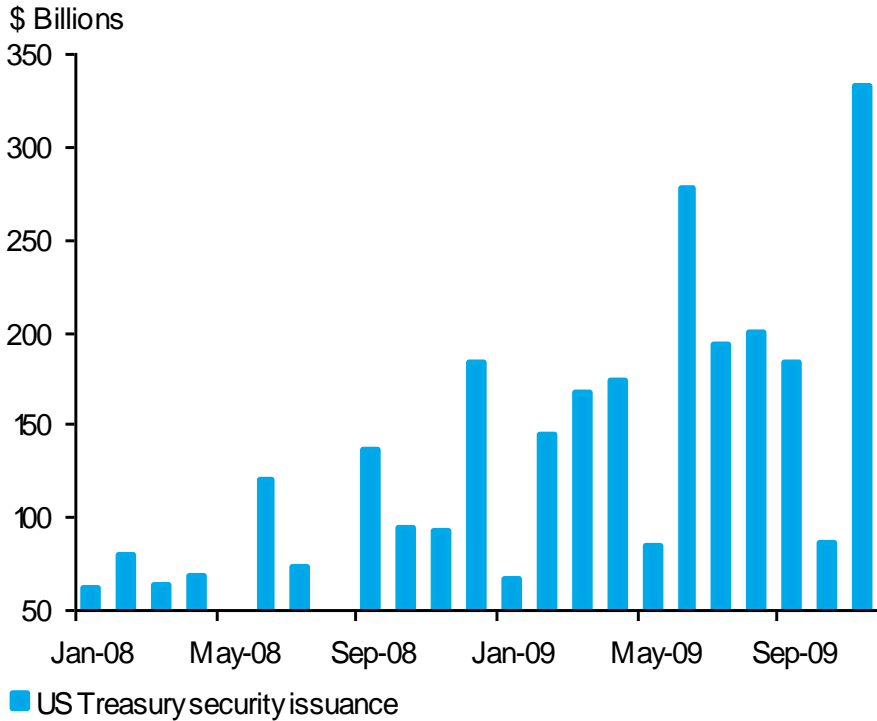


Source: Datastream, Barclays Wealth Strategy

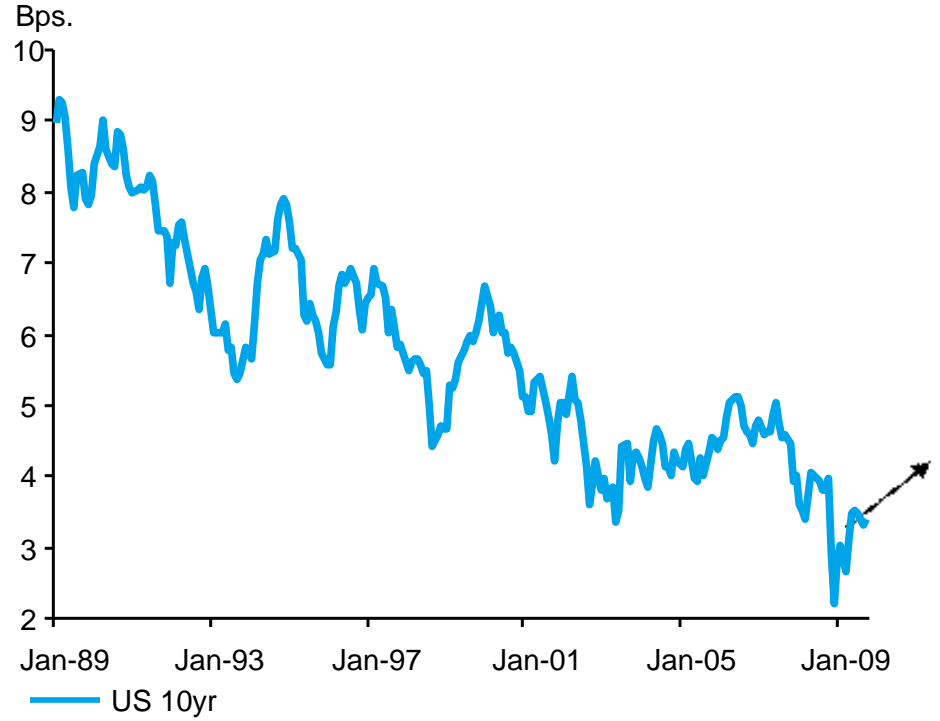


Source: Datastream, Barclays Wealth Strategy

# ... but the cycle, issuance and rates count against government bonds



Source: SIFMA, Barclays Wealth Strategy



Source: Datastream, Barclays Wealth Strategy, Barclays Capital

# Credit: Middle of the road, supported by spreads and the cycle



Source: Datastream, Barclays Capital, Barclays Wealth Strategy

— US corporate investment grade spread

# Commodity forecasts

	2008	2009	2010 F	2011 F
<b>Agriculture</b>	<b>-27.5</b>	<b>13.7</b>	<b>-1.0</b>	<b>8.0</b>
<b>Industrial metals</b>	<b>-48.3</b>	<b>80.0</b>	<b>14.4</b>	<b>6.4</b>
<b>Precious metals</b>	<b>-4.1</b>	<b>29.2</b>	<b>-6.9</b>	<b>0.0</b>
<b>Oil (\$/bbl, year- end)</b>	<b>36</b>	<b>78</b>	<b>88</b>	<b>91</b>
<b>All energy</b>	<b>-47.3</b>	<b>-5.3</b>	<b>13.1</b>	<b>14.6</b>
<b>All commodities</b>	<b>-35.7</b>	<b>18.9</b>	<b>6.9</b>	<b>9.1</b>

# Uneven road, limited fuel, some new drivers – but we know where to go

## *General themes:*

- Exposure to companies is better than exposure to governments;
- A stronger dollar needn't prevent equities and commodities from doing well;
- Inflation set to stay historically subdued;
- Not all asset classes are going to deliver similar returns;
- Active Management will be important to deliver performance;

## *What investors should do:*

- It is not yet too late to add to equity holdings, especially in developed markets
- Cautious weightings in government bonds; but they can provide protection
- Hold a diversified basket of commodities

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