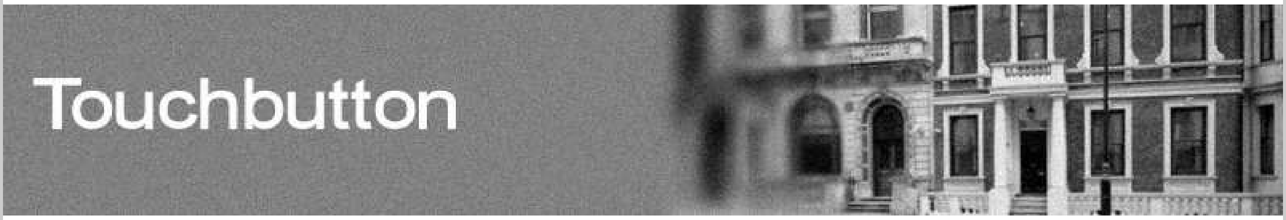
If this email is not displaying correctly, click here to view in your browser.

BERRY
ASSET MANAGEMENT PLC
A MEMBER OF THE BORDIER & CIE GROUP

+44 (0)20 7667 6600



No: 18, May 2013

Forever blowing bubbles

Asset price bubbles are like buses right now: you wait a while and then several turn up at once. The bond bubble has been inflating for quite some time and has been well documented, but there are increasing signs of a bubble in prime residential property and now the world's equity markets. What is going on? Why are the prices of assets being driven to such heights when the world's financial and economic woes are nowhere closer to being solved than they were a few years ago?

A key characteristic of this bull market has been the continual, generally disparaging, cry that it has been powered by Quantitative Easing (QE) and the loosest monetary policy in centuries. This has been described as a form of 'oxygen' to push markets ahead. This may be so, but the current market recovery is no less real because of this: all bull markets are powered by something, and it is nearly always liquidity. Without excess liquidity, there is no spare cash to buy assets. Granted, the scale of liquidity to hand is much greater this time around, and it is the scaling back of this which will eventually present the ultimate challenge to central banks. It is not impossible, however, to believe in an environment where QE is gradually throttled back, precisely in tune with a global economic outlook that gets better by the day. We are not suggesting that this is happening now, but there are clear signs that the US is recovering, and in due course Europe will too. It will be a delicate operation, but the metaphorical 'oxygen' that has been provided to markets can be slowly withdrawn as the economic recovery starts to provide its own, real, oxygen.

Any such manoeuvre will inevitably be hazardous and there will be periods when markets will think that central banks have got it all wrong. These will be the days and weeks when markets exhibit the sort of behaviour that Japan demonstrated last week. But it is a possible outcome, and it continues to be the irrefutable case that investors face the dilemma of where to put their money: inflation is a resting beast that could awake at any time, cash is not a viable option, and equity markets are probably the smallest bubble but, crucially, the one that does at least offer value, growth prospects, rising dividends, and, over time, protection from the general debasement of currency and other hazards looming over the horizon. It remains a time for strong nerves, but those who have them should be adequately rewarded.

Berry Asset Management PLC
79 Pall Mall
London
SW1Y 5ES

t : +44 (0)20 7667 6600
f : +44 (0)20 3427 5400
w : www.berry.co.uk

If you no longer wish to receive marketing emails from us please click here. Alternatively, you can write to us at: Berry Asset Management PLC, 79 Pall Mall, London, SW1Y 5ES, United Kingdom or email unsubscribe@berry.co.uk.

Berry Asset Management PLC is a specialist investment management company, dedicated to providing portfolio management services to the private investor and trustee. As such under the Retail Distribution Review definitions the Firm is considered “Restricted”. The value of investments, and the income arising from them, can go down as well as up, and is not guaranteed, which means that you may not get back what you invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may also cause an investment to fluctuate in value. Levels of taxation depend on your individual circumstances and the value of any tax reliefs which apply. Whilst every effort has been made to ensure that the information contained in this document is correct, the directors of Berry Asset Management PLC can take no responsibility for any action taken (or not taken) as a result of the matters discussed within it.

Issued and approved by Berry Asset Management PLC. Authorised and regulated by the Financial Conduct Authority 25 The North Colonnade, Canary Wharf, London E14 5HS. Incorporated in England No: 1583393. It is not intended as an offer to acquire or dispose of any security or interest in any security.

© 2013 Berry Asset Management. All rights reserved.