

## FINANCIAL MARKETS AND PORTFOLIOS UPDATE

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**Further to our update on financial markets and portfolios of 3 October, we have seen yet more extraordinary developments in global markets.**

During the last month, equity markets were extremely volatile and suffered major declines, the global financial system came close to collapse, there was record volatility in currency markets (including a 10% decline in sterling versus the dollar) and commodity prices plummeted. In response, western governments re-capitalised many of their largest banks and have promised to increase public spending to stimulate demand. Central banks have delivered co-ordinated interest rate reductions, including yesterday's 1.5% cut by the Bank of England, to try to head off a deep and prolonged global recession. Faced with such events, what are we advising?

Cash and gilts, which have provided a welcome element of ballast in portfolios during the last 15 months or so, are now looking less attractive due to falling interest rates and greater issuance respectively. Within portfolios, the resilient performance of these low risk assets, combined with the weakness in share prices, means that allocations have become skewed towards cash and government bonds and away from equities. We are, therefore, analysing all client portfolios to determine whether there is merit in rebalancing allocations back towards equities. Even with a generous allowance for earnings downgrades and dividend cuts, the yield on many blue chip equities looks relatively attractive when coupled with the prospect of some capital growth from lower levels. We will be contacting clients to provide specific recommendations for their portfolios as appropriate.

**If you would like advice on any of the matters in this bulletin, please contact Nick Fletcher, Chief Executive, at [nick.fletcher@saunderson-house.co.uk](mailto:nick.fletcher@saunderson-house.co.uk) or on 020 7315 6504 (direct), who will either help you personally or guide you to an appropriate adviser.**