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City Financial: cash no longer king

by David Carr Monday 20th October 2008: 12:21

Cash is no longer king, with investors now focussed on returns rather than the risk of a banking collapse, according to Ian Williams, manager of City Financial's Strategic Gilt fund.

With UK bank deposits benefiting from enhanced guarantees, Williams says investors are now

looking beyond cash, and he sees base rates falling to 3pc by mid-2009, with some savings deposits rates likely to fall to as low as 1pc.

"It seems quite clear that fear of recession, no longer inflation, is the driving force behind policy making in Downing Street. Given the tools available to the Chancellor, the outcome will likely be much lower short-term interest rates," he explained.

In contrast, 15 year gilts are currently yielding around 5pc, while certain blue chip equities are returning 5 to 6pc.

"If you think the recession is already here, this makes a strong case for the classic balanced portfolio of equities and gilts, both of which are yielding more than cash," Williams said.

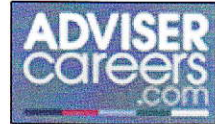
"Cash has been king over the last nine months, but this is not the case any more. We think both gilts and equities will outperform cash over the next 6-9 months at least."

Williams sees the opportunity to lock in the yields available on longer-dated gilts, while benefiting from capital appreciation. He sees little scope for holding corporate bonds, however.

"There is little space in my mind for corporate bonds, because of the default risk," he explained. "You would be better off holding the underlying equity, instead."

To comment, contact **David Carr** on 0207 034 2638 or email: david.carr@incisivemedia.com

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