



Below is the latest Market Comment from Ian Williams: (07/01/2015)

One of the most important cycles in Financial Markets is the 40 year cycle. Gold for instance is in the up part of a major bull cycle that began in 2000 and is not due to peak until 2020.

January 2015 marks the 40 year anniversary of the start of the great Bull market in Fixed Income. In January 1975 the UK Gilt market finally bottomed with the yield on War Loan (3.5%) having the same yield & price; namely 18% yield with the Bond priced @ 18. (War Loan has just been redeemed at 100). One of the primary causes of the huge rise in yields, that occurred prior to the final low in 1975, was the quadrupling of Oil prices by OPEC in the early 1970's.

Major cycle lows usually end in a selling (or buying) tsunami type climax. This is a box that is certainly being ticked right now in both Bonds (Buying climax) & Oil (selling climax). These moves once played out (& oil could easily fall to \$30 or \$40 a barrel) will then mark the end of both the bull market in Bonds & the bear market in oil. The implications for markets are as follows:

1. Bonds are a highly dangerous asset class (buying any asset at 300 year highs carries huge risk) which carry heavy asymmetric risk versus any likely reward.
2. As Interest rates rise (it is a case of when rather than if), 99% of Bonds & Bond funds will lose capital value!
3. The Oil price fall is unambiguously great news for the Global economy & Global Equity Markets (apart from Russia, OPEC and the US Shale Industry etc). The Oil price fall is deflationary on the CPI but reflationary for economic growth. It is in effect a giant tax cut for all energy consumers either Personal or Corporate. For example, Barrack Gold Miner spent \$1.5 Billion last year on Fuel which now looks to be reduced to \$700M for the coming year. Similar stories for other industries such as Airlines .Shipping, Mail delivery to name a few. Country-wise, the biggest beneficiaries are obviously Oil importers such as China, Japan, and India. For the

US, it is a mixed bag because the benefit for the majority is offset by some pain for the Shale Industry.

4. The Fall in Bond yields is also very bullish for Equities as the average Yield on Equities is now much higher than for Bonds. With some corporations, across many diverse sectors, about to get a huge boost from lower Oil prices, the switch out of Bonds into Equities is the most obvious shift we have seen for years.

5. Property & Property shares will also benefit from the fall in Bond yields - Property yields look very high now relative to Fixed Income.

6. Gold & Silver (especially Silver) to be amongst the best performing asset classes leading up to the 40 year cycle peak in 2020. Low Bond yields will also help this sector. Gold in Euros finally broke above 1000 Euro's an ounce yesterday and for any European Central Bank it looks a vastly superior bet than 3 year German Bunds on negative yields. To obtain a positive yield on Bunds, you need to go to 2020 maturity where you receive the princely sum of 2 pence interest in for a 100 pound Investment per annum: anything shorter & you pay to hold the Bond. Gold meanwhile can be leased out @ 0.40% for a 1 year lease.

7. Other European Government Bonds, namely Italy & France, carry default risk as well which is not compensated for at current yield levels. Italy's outstanding debt to GDP ratio is around 135% and growing exponentially. This is due to the effects of compound Interest on the outstanding debt & no growth in the Italian economy. Even with low Oil prices, the Italian economy will probably inhibit either low or no growth. This leads to the probability of national bankruptcy appearing at some stage as a real possibility as long as Italy remains in the Euro. France is in a similar position but with a slightly better placed with a Debt to GDP ratio of 105%. This is also growing exponentially for the same reason as Italy. If this develops into a full blown funding crisis it would blow the Euro apart. The idea that these Bonds have better & safer fundamentals than Gold is foolish to the extreme.

As per points 1 & 2 & 7 Charteris is launching a New Strategic Bond Fund that is specifically designed for a period of rising Interest Rates & falling Bond prices. The Fund will contain a large element of Floating Rate Notes which will benefit as Rates rise. The expectation is that this fund will be in the 1% that does not lose capital WHEN the bear market in Bonds begins. If our 40 year cycle analysis is correct that bear market is not very far away.

If you would like any further information on the above, please contact myself or the team on the number below.

Warm regards,
Ian Williams, Charteris CEO and the team.

This email originates from the sender at Charteris Treasury Portfolio Managers Ltd ("the Company"). Charteris Treasury Portfolio Managers Limited is registered in England Number 1830771. The registered Office is: 8-9 Lovat Lane, London. EC3R 8DW: Tel: 0207 220 9780 - Fax: 0207 929 6925.

Charteris Treasury Portfolio Managers Ltd is authorised and regulated by the FCA (25 the North Colonnade, London E14 5HS) with no. 114952. CTPM is also authorised and regulated by the Gibraltar Financial Services Commission.

The information contained in this email and any attachments is confidential and may be privileged. It is intended for the exclusive use of the addressee(s) indicated. If you are not the addressee(s) or authorised to receive for the addressee(s), any disclosure reproduction, distribution or other dissemination or use of this communication or any attachments is strictly prohibited and may be unlawful. If you have received this transmission or any attachments in error, please delete the message and any attachments and notify us immediately by telephone.

The views expressed are not necessarily those of the Company and no contractual commitments should be considered as entered into as a result of this email, unless explicitly stated. Any prices shown are indicative only, unless explicitly stated.

We do not accept responsibility for any changes made to this message after originally sent or any subsequent distribution thereof. In addition, it is the responsibility of recipient(s) to carry out such virus or other checks.
