Davy Asset Management
2013 Investment Outlook

What a difference a year makes. 12 months ago, many investors were worried that a breakup of the eurozone was imminent, the global financial system was about to collapse, China's property market was about to implode and, according to the Mayans, the world was due to end. If you are reading this, the good news is that none of these events came to pass. In fact, despite all of the apocalyptic arm waving, 2012 turned out to be a very good year for many investors, with almost all assets across the investment spectrum in positive territory.

So what will 2013 bring? A summary of our key views is provided below.

Global economic outlook: a three speed world
Looking to 2013, we expect the global economy to grow at a respectable 3.5%, but this forecast marks wide regional variances. Under our central scenario, we expect a three speed world to emerge, in which Europe continues to stagnate under the weight of austerity and emerging nations such as China will continue to grow at much faster rates than the developed world. However, it is the United States, the world's largest economy, that provides the most reason for optimism, where a rapidly improving labour, housing and credit market augur well for the year ahead
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Ireland: economy is stabilising
We now estimate that GDP in Ireland expanded by 0.5% in 2012, which would make Ireland one of the better performing economies in Europe last year. Exports continued to be the main driving force and domestic demand declined again. However, after five years of decline, there are now some encouraging signs that the domestic economy may be stabilising. Private sector employment is growing again, both residential and commercial property prices seem to have reached a floor and Irish entities have re-entered international funding markets again. We now expect GDP to expand by 1% in 2013 setting the stage for a better 2014.

Equities: valuations remain attractive
Equities look best positioned to deliver the highest returns in 2013. In the aftermath of the financial crisis, corporate profits have rebounded strongly and balance sheets remain in very good health. Although the earnings cycle is showing signs of maturing, reasonable equity valuations suggest a lot of pessimism is already priced in. Our High Yield Fund is investing in a number of themes and trends, dividends, dividend growth, quality emerging market growth and European cyclical recovery, while midcap equities continues to offer good upside potential.

Fixed income: how low can yields go?
The single most pressing issue facing investors today are the historically low yields on traditional sources of income such as cash and government bonds. Central banks remain committed to keeping interest rates lower for longer, and are determined to reflate their economies via Quantitative Easing. Cash deposit rates are falling and with government bond yields close to multi-century lows, we see limited upside from current levels and, in fact, significant downside risk and prefer to take exposure to corporate bonds.

Alternatives: property to recover?
Commodities should benefit from a pick up in global growth. That said, commodities are not a homogenous group. Oil prices will continue to be subject to tensions in the Middle East, and gold will remain in vogue as long as currency debasement continues, but if growth comes in better than expected the market could begin to factor in tighter monetary policy – a negative for the yellow metal. In a low yield world, commercial real estate is gaining momentum as a source of income, and with yields above 6%, life is beginning to return to the global property sector, Ireland included.

Overall Summary
Markets will remain volatile in 2013, but as the global economic outlook improves later in the year, we expect investors to increase Equity exposure and reduce Cash/Fixed Income exposure, particularly as systemic risks such as a Euro break-up recede further, leading to the fourth positive year for equities since 2008.

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