

GYC Investment Update

From the GYC Investment Desk

Recent Economic Development

So far 2012 has been off to a good start. Economic numbers are coming in better than expected. Germany's IFO survey has seen a recovery in business activity. This business climate index has hit its highest level since August 2011, rising from 107.3 in December to 108.3 in January. The expectations index has also moved higher for the third successive month, jumping from 98.6 to 100.9.

In China, GDP growth has slowed to 8.9% in Q4 of 2011. More importantly, the data came in better than many had expected as industrial production rose (12.8% in December vs 12.4% in November). Together with a rise in retail sales (18.1% vs 17.3%), this helped prop up the poorer fixed asset investment (23.8% vs 24.5%) and export numbers (13.4% vs 13.8%). Meanwhile, inflation has peaked, with CPI down to 4.1% after hitting a high of 6.5%. This will allow Chinese policy makers to ease monetary conditions in the face of slowing economic growth.

In the US, the economic momentum appears sustainable. Durable goods orders (Figure 1) saw a strong increase, rising 17% in December compared to 2010. This is likely to be positive for PMI numbers that is due in the coming days.

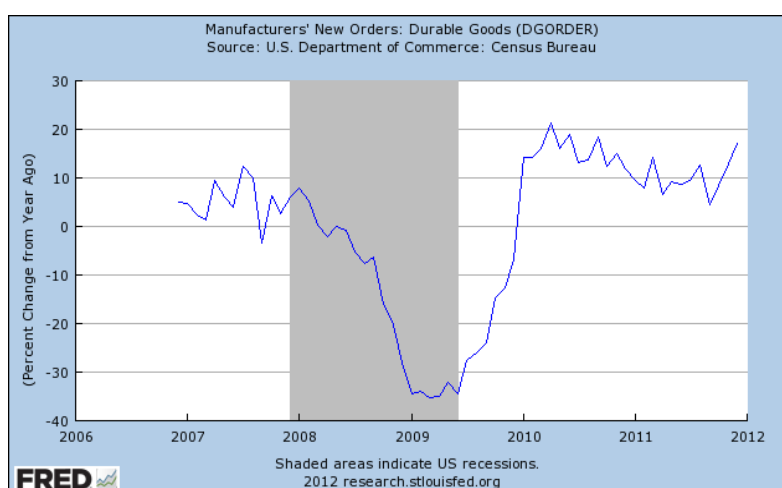


Figure 1: US Durable Goods Orders (YoY % Change).

The improvement in employment is also evident as shown by the falling claims for unemployment insurance (Figure 2). The 4-week moving average of initial claims continues to show progress for the jobs sector, which should boost consumption in the US.

Market Commentary

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Produced by:
GYC Financial Advisory Pte Ltd

1 Raffles Place
#15-01 One Raffles Place
Singapore 048616
Tel: 65-6349 1441

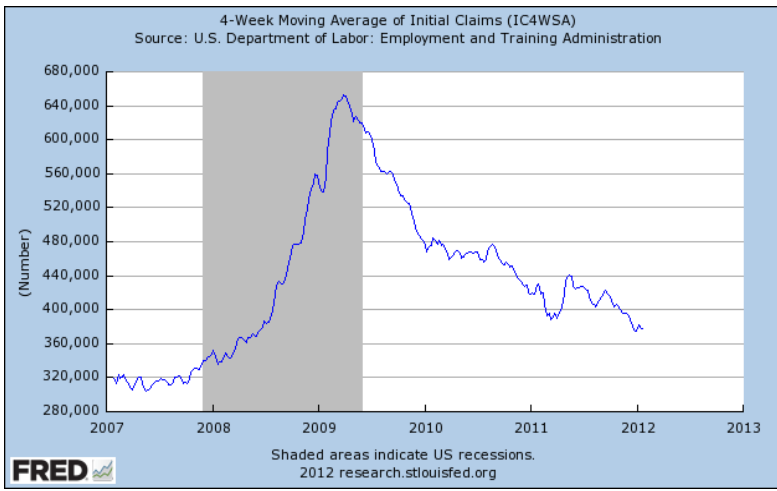


Figure 2: US Unemployment insurance claims falling.

Market Development

Risk assets have had a good start so far (Figure 3). Global equities are up about 6% with emerging markets leading the pack (up 11%). High yielding bonds are also positive while demand for industrial commodities (Figure 4) are also picking up.



Figure 3: Global equities rallying in January 2012.

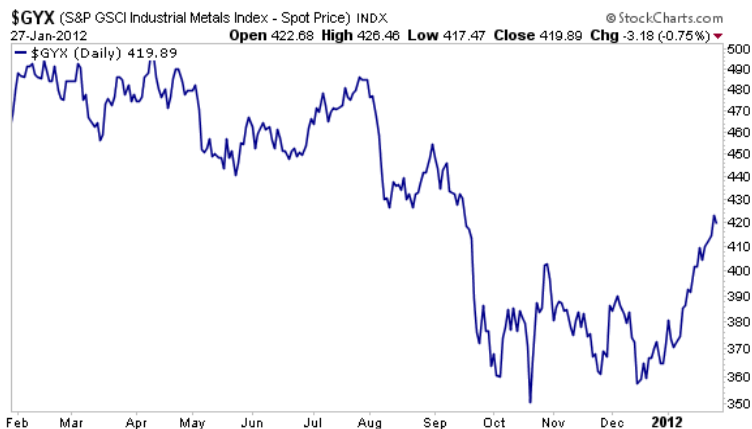


Figure 4: Industrial metals recovering strongly.

Markets are beginning to signal that the risk-on trade is back. Credit fears are also receding with the TED spread falling (Figure 5). This is in line with the improvement that we have been seeing in Europe, where the stability engineered by the ECB has thus far been maintained. Italian and Spanish yields have fallen sharply and recent bond auctions have been successful. Recent downgrades of European sovereign credit ratings has had no impact as yields were little changed. Furthermore, European financial stocks have stabilised and have begun to outperform the market (Figure 6), a sure sign that investors are more confident of the survival of European financial institutions compared to a month ago.

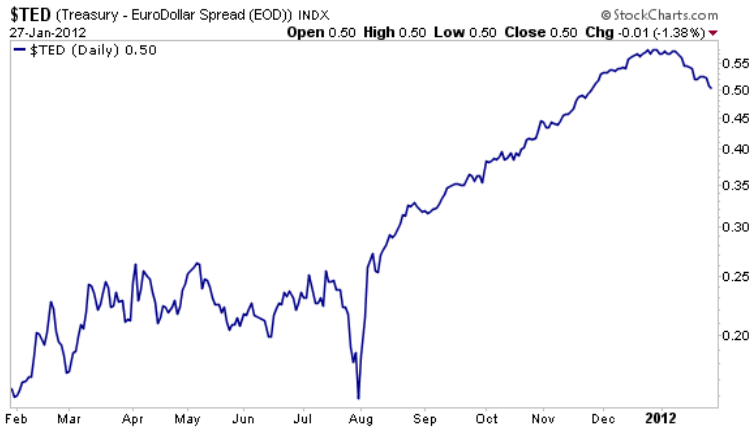


Figure 5: Credit risk is falling.



Figure 6: European financials beginning to outperform the market.

Conclusion

The outlook is brightening. Markets are suggesting better news flow in the weeks and months ahead. The current stability in Europe has kept the world from falling into a global financial crisis. As more good news surface, investors would have less reasons to stay defensive.

Portfolio Positions

For our core United G Strategic Fund, the equity exposure has already reached 87% in the week before Chinese New Year. Over the last week, we have made a call to rebalance our cash and CPF portfolios to increase our equity exposure. Please login online and let us have your approval once you receive the email notification for the rebalancing.

To find out how you can get started on your own investment portfolio, call or email us at:

Tel: (65) 6349 1441
 Email: enquiries@gyc.com.sg

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