

Getting ready for the Fall

'EM currencies to appreciate as developed countries enter an uncertain phase and investors scramble for returns'

9th August 2010: Giancarlo Perasso, Chief Economist for the Matrix Redux Emerging Markets Fund believes that EM currencies are bound to appreciate as developed countries enter an uncertain phase and investors scramble for returns.

- **No double dip for the US economy, thanks to strong policy reaction to the cooling down of growth. Fiscal policy will not be the main instrument of this new stimulus...rather the Fed is ready to ease again**
- **The Eurozone will face a difficult Fall, as tensions in some countries (Greece, Italy) are likely to spook investors**
- **Emerging markets will continue growing, albeit at a slower pace**
- **Commodities prices will not decline but will not rally either (aside from short-lived speculative bursts), as growth remains subdued**
- **EM currencies are bound to rally and top picks are the Turkish Lira, the South African Rand, the Brazilian Real and, for the more adventurous, the Colombian Peso, the Peruvian Sol**

While most people are on holiday and thin markets exhibit a fair degree of volatility, we at Matrix Redux are doing our homework to be ready for the end of the year. **Our view, like everybody else's, is centred on what will happen in the United States. We agree with the consensus that the economy will slow down but we think that the slowdown will not become a double dip as policy action to avoid it will be swift and significant. We are convinced that the top priority of the US authorities is to avoid the double dip, as this would have disastrous consequences on the labour market, household finances and, ultimately, the growth and electoral outlooks.** We also believe that fiscal policy will not be the main instrument of this new stimulus, as politicians will be busy with the conflicting demands on the part of the electorate before the mid-term elections and by the debate on which of the Bush-era tax cuts should be allowed to expire and which ones should be prolonged. The burden of stimulating the economy, thus, will fall on the Fed and we interpret the recent statements by Ben Bernanke and other Fed officials as clear indications that the Fed is ready to ease again. **It is a bold step on the part of the Fed** and one which will make the eventual adoption of an "exit strategy" even more difficult than it currently is but we believe that the goal of not letting the current recovery turn into a recession will make the Fed put their concerns about the exit strategy on the side.

The second pillar of our analysis is that the Eurozone will face a difficult Fall. We are not banking on a break-up of the Eurozone but fiscal tensions will emerge again as the Greek fiscal situation is far from being solved. **Moreover, in the Fall Italy could well be facing a government crisis.** The recently approved supplementary budget already included measures to avoid a fiscal derailment in Italy in the coming months and in 2011 but markets might get nervous and force the government to take other fiscal measures, which might be problematic given the uncertain political situation. Overall, we think that the differences amongst the members of the Eurozone will become more pronounced (Germany and Poland doing well, France okay-ish, Med countries and Hungary not so good) in the coming months, causing jitters in the markets.

Emerging markets will continue growing, albeit at a slower pace. We do not believe any of them will adopt measures to stimulate their economies but, rather, continue following a path of fiscal and monetary prudence. The most likely change in policy will be a postponement of the monetary tightening that markets have been discounting so far due to some slowdown in growth. Fiscal policies will remain broadly on track despite the electoral cycle (especially in Brazil).

Finally, commodities prices will not decline but will not rally either, as growth remains subdued. Also, subdued growth will imply low global inflationary pressures and hence the need to buy commodities as protection against inflation will not be as compelling as in other occasions.

In this scenario, both the USD and the Euro are bound to be weaker against European peripheral, like the CHF and Sterling, the Aussie and Emerging Market currencies. Given our outlook of stable official interest rates around the world, monetary easing in the US and volatility in the Eurozone's bond markets, **EM currencies are bound to rally on the back of both a positive interest rate differential with respect to G10 countries and a positive growth outlook accompanied by prudent macroeconomic policies. Our top picks are the Turkish Lira, the South African Rand, the Brazilian Real and, for the more adventuresome, the Colombian Peso, the Peruvian Sol.**

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Notes for Editors

Matrix Group is one of the most successful privately owned financial services businesses in the UK with around £3.5 billion of assets under management and more than 230 professionals employed across three divisions: asset management, investment banking and property. Since inception in 1987, Matrix has raised over £11.5 billion of assets for investments across these business areas.

Within the asset management division of Matrix Group, as well as funds of funds, cash funds and private equity, there are currently six other long/short equity funds:

- Matrix Asia UCITs Fund, a UCITS III fund
- Matrix Asia Fund, one of the few far eastern hedge funds to have a pan-asian investment remit
- Matrix Lazard Opportunities Fund, a UCITS III fund investing in convertible arbitrage and special situations/event driven
- Matrix Macro Fund, a global macro equity fund
- Matrix New Europe Fund, focused principally on the markets of Russia
- Matrix PVE Global Credit Fund, focused on global credit markets

Matrix Group and Redux Research Limited joined forces for the Matrix Redux Emerging Markets Fund in April. Sudeep Singh, founding partner of Redux, and his team have over 50 years combined experience in emerging markets and will be providing emerging market currency and macro strategies.

Sudeep has more than 16 years of experience trading securities in emerging markets. He was formerly a Senior Portfolio Manager of emerging markets for Caxton Associates, LLC, and served as Managing Partner and Chief Investment Officer of Lotus Capital Partners LLP.

Previously, Sudeep was Senior Portfolio Manager for Sigma Capital, a London-based affiliate of SAC Capital Management LLC; Head of Europe, Africa and Middle East Proprietary Trading at Chase Manhattan Bank in London as well as managing Donaldson, Lufkin & Jenrette's Emerging Markets Proprietary Trading for hard currency assets in London. Mr. Singh was also a founding member of the Emerging Market Relative Value Trading group at J.P. Morgan and managed their Latin American equity position-taking book. Sudeep holds an MBA from the University of Chicago and a BA from the University of Vermont.

Giancarlo Perasso, Chief Economist of Redux, is also a visiting professor to the Università Carlo Cattaneo of Castellanza, Italy. He was formerly the Global Head of Emerging Market Research at WestLB, where he developed market-oriented global research, focussing on both external debt and local markets (FX and fixed income).

Prior to this Giancarlo was Senior Economist for Central and Eastern Europe (CEECs) at Chase Manhattan Bank, then JPMorgan-Chase. During this time, his team ranked in the top three analysts for the Europe, Africa and Middle East (EAME) region by Credit Magazine in Spring 2000. He was also a member of the Chase research team ranked No 1 in Emerging Market Research in both 1999 and 2000 by Institutional Investor. Perasso has also been an economist for the Organisation for Economic Co-Operation and Development (OECD), a consultant for the World Bank and a visiting professor at Franklin College. He holds a BA in Social and Economic Sciences from Università Commerciale Luigi Bocconi, and an MA in Political Economy from Johns Hopkins University.