

## IVEAGH WEALTH FUND MONTHLY COMMENTARY

The Iveagh Wealth Fund fell -0.22% in July. The world equity index in pounds rose 2.98% over the month.

Global stock markets began July with steep falls in most cases to lows for the year as sovereign bond yields for countries in the EMU periphery spiked again towards their June highs. Commodity prices reflected in the DJUBS index also began weaker but recovered to six-month highs as it became clear to market participants that the EMU banking system stress tests would provide some clarity concerning specific bank capitalization needs as well as European systemic requirements. This, combined with assurances from the Federal Reserve that US authorities would be vigilant in fulfilling their dual remits of maintaining orderly consumer prices and supporting employment, was sufficient to have equity markets turning up to reverse most of their June fall by end July. The US central bank declared that should further actions be needed to prevent a double-dip recession, the Fed could reinvest assets in mortgage-backed securities, cut the interest rate paid on commercial bank deposits, and purchase outright more sovereign debt. This showed investors that what might be required for US economic growth would be very good for global credit markets as well, so that spreads shown in corporate bond indices such as the ITRAXX European 5 year Crossover index fell dramatically while US two-year treasury yields reached new lows.

Portfolio risk exposure was low at the beginning of the month, and some further risk reduction was implemented when equity markets breached on the downside several important support levels in response to significant credit market stresses and the risk of renewed sovereign crisis emanating from Europe. The market breakdown through support levels early in the month had us hold off adding risk

back to the fund, however, by mid-month the technical picture had improved enough to allow us to begin buying risk assets in accordance with the signals from the rest of our process.

The net result is that the fund now has an allocation very close to base-case, with more than half the portfolio in equities and commodities, as well as some additional exposure to shares through an option book. The largest changes that occurred in the portfolio over the month were a near doubling in exposure to equity markets, an increase in holdings of corporate bonds, and a concomitant reduction in cash.

The global business cycle picture painted by our leading indicators is clear and striking for Q3 2010. It is reasonably supportive of equity earnings growth and shows no signs whatsoever of global inflation pressures. Remarkably, service inflation looks to stay at just half its historic rate around the world for some time to come. Chinese growth continues at a high rate, with record consumption growth compensating for slowing investment growth after last year's credit expansion. The US achieves an expansion at the low end of its trend 3% to 4% range, with unusually low consumption growth but higher investment and production growth and a stable trade balance. The Far East ex Japan economies show very strong expansions with very well contained inflation and trade balance surpluses, most certainly aiming also at exports to China. The outlook is similar for Australia with a bit higher inflation. Japanese consumption rebounds to trend but investment and foreign trade lag, while mild deflation remains. EMU barely returns to growth with consumption so low, but the drop in the Euro spurs exports and production. The UK has a very poor profile, with no recovery, high inflation and in all likelihood little recourse but to devalue its currency.

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The portfolio at the time of writing this report is invested as follows:

- Government bonds 7%
- Corporate Bonds 6%
- Cash 5%
- Major Market Equities 20%
- Far East Equity 8%
- Developing equity 5%
- Technology and Small Cap equity 4%
- Private equity 5%
- Equity Long/short and Alternatives 28%
- Gold 8%
- Natural Resources 4%

As far as the outlook for the third quarter goes we expect to see a broad range being established now that support has held so far, leading to possible tests to the upside where previous support levels are likely to act as resistance.

The Iveagh Team

[www.iveaghwealth.com](http://www.iveaghwealth.com)

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JULY 2010



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