

TIME TO BUY US EQUITIES?

Words - Tom Croft, Chartered MCSI Investment Director

The US stock market has recently hit a five month high and was one of the best performing markets last year. Investors have been buoyed by the positive tone of US data which suggests that economic recovery is gaining traction. Business activity is expanding and retailers reported the highest sales on record for the post-Thanksgiving shopping period. There is also jobs growth with the unemployment rate recently falling to a three year low.

In the near term, we may continue to see positive news flow and consumers seem willing to spend more at the expense of savings. The Federal Reserve is certainly helping with its readiness to support the economy through its commitment to keep short-term rates low, liquidity high and its attempt to mitigate any increase in long-term rates using tactics such as Operation Twist.

There are a number of other reasons to believe that the US can again outperform this year not least the prospect of major changes within the oil and gas industry that will put America on course to near energy self sufficiency. Oil production within the Gulf of Mexico is expected to increase threefold by the end of the decade which, combined with an oil and gas boom in North Dakota and improved efficiencies should see US imports of oil drop from 9 million barrels per day to 2 million barrels per day within six or seven years. Moreover, the significant increase in production of shale gas has already resulted in the lowest natural gas costs globally outside the Middle



East which together with the oil boom should provide a huge driver of growth in the economy and the prospect of major job creation.

Other reasons include improvements in competitiveness within the US industrial and manufacturing sector with many companies bringing manufacturing back to the US in a new trend called "on shoring". The US has also maintained its leadership in technological innovation giving it a competitive advantage across a range of industries, such as aerospace, pharmaceutical and biotechnology, drug discovery and IT breakthroughs.

Finally, the US corporate sector has record levels of free cash flow and relatively low levels of net debt and recent dividend increases by "blue-chip" companies Pfizer, Boeing, Ford and General Electric are part of a broader trend of improving returns to shareholders.

It would be fanciful to suggest that the US can decouple from events globally and if the situation in Europe were to deteriorate markedly then US markets would not be immune from this. However, there is no doubting the improving picture from 'across the pond'.

[Statements made herein represent the views of the writer and are given in good faith but without legal responsibility and are subject to change without notice]



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