

## FUND VIEW-World equity rally may have another leg up-Pioneer

By Mike Dolan

LONDON, June 26 (Reuters) - The near 50-percent rally in world equities since March may have another, less explosive leg higher after stalling in June, according to the Chief Investment Officer for Europe and Asia at Pioneer Investments. Mauro Ratto told Reuters that current risk premia within financial markets remained attractive in a scenario where the world economy was still just normalising and faced with a prolonged period of sub-par growth at best.

Technical factors -- such as the return of huge amounts of money still parked in cash -- and the potential for a positive corporate earnings surprise in the fourth quarter argue for an extension of the rally by another 10-15 percent, he added.

Ratto said the surge in equities since March, which saw the MSCI's world stocks index jump 43 percent, was justified.

The credit market pricing that prevailed after collapse of Lehman Brothers last September was akin to a "world war" footing and suggested lending would never resume again, he said, citing near 20 percentage point premiums on European high-yield bonds.

"This recent phase, an effective V-shaped recovery in financial markets, was well deserved -- it was simply a normalisation of risk premia across the different asset classes," said Ratto at Pioneer, the global asset management arm of Italian bank Uncredit.

However, despite world equities levelling off in June, Ratto said Pioneer -- who had assets under management in May of \$159 billion euros -- remained slightly overweight equities.

"It's now easy to start being more sceptical about what will happen, and the idea that the global output gap will remain quite wide for some time doesn't bode well for future financial market performance," Dublin-based Ratto said in an interview.

### **ONE MORE LEG UP?**

However, huge amounts of investment money is still on the sideline and investors who have stayed out of the generalised financial markets recovery to date will be nervous, he added.

Despite narrowing about 500 basis points, corporate bond yield premiums still look attractive, Ratto said, adding: "There are still very good opportunities in the corporate bond investment grades and more selectively in the high yield space."

Pioneer's estimate of the equity risk premium, or the extra return on the overall stock market over "risk free" securities like Treasury bonds and bills, also remains as high as 4 percent, he said.

What is more, Ratto said corporate cost cutting over the past six months has been "impressive" and operating margins remain quite healthy.

"My expectation is that if we can benefit simply from a normalisation of the cycle into the fourth quarter, earnings could surprise on the upside," he said, adding this was especially so from the "very depressed" in Q4 2008.

"Together all these factors could justify another leg up -- nothing massive and not another 50 percent -- another 10-15 percent could easily be justified," the Pioneer CIO said. He was reluctant to go into individual sector preferences, but said technology stocks still looked attractive while commodity stocks had probably come too far, too fast.



Ratto's economic analysis centres on a two-phase recovery. The first is the financial normalisation, which he says has further to go, and the second is a prolonged period of weak growth after such a severe balance sheet recession -- one containing a "minefield" of problems such as high government deficits, the risk of inflation and a "fake" recovery in China.

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Keywords: MARKETS PIONEER