

Equity markets will be volatile this week with potential downside risks due to continued concerns surrounding Sovereign debt. With credit spreads among peripheral European nations remaining elevated and no short-term resolution in sight, appetite for risk is likely to be subdued. For investors looking to hedge their portfolios we recommend taking an index short in either the FTSE, DAX and S&P depending on geographical exposure of their portfolio. While we are cautious short-term we believe that this pull back will create an opportunity to allocate capital to our preferred sectors. The strong earnings reports and improved outlooks by many corporates including tech bell-weather Cisco last week reinforce this view. Economic data is also showing signs of stabilisation with the improvement seen in both ISM reports from the US last week. On the currency front we anticipate that the Euro will remain under pressure due to the issues outlined above. Commodities are also likely to be volatile, however we feel the long-term fundamentals of our preferred industrial metals remain intact. The market's focus will remain on the fiscal situation in Europe however economic data in the form of Advance Retail Sales and Consumer Confidence will provide the market with an important update on the strength of the US consumer.

Trading Recommendations

Microsoft - Buy Previous close (\$28.02) Price target (\$35.00) Analyst: (Stephen Taylor)

Good results: Recently reported better than expected earnings driven by the new Windows 7.

Balance Sheet: Benefits from net cash position of c. \$30bn.

New Products : One of strongest product upgrade cycles in company's history. Office 2010 due to be released by June.

Key Metrics : Div Yield 1.87% P/E 13.5x

Next Catalyst HP and Dell due to report earnings 17th & 18th February, respectively.

Key Risks: No pick up in corporate spending.

Smurfit Kappa -Buy Previous close (€6.45) Price target (€7.15) Analyst:(Edward Keeling)

Q4 Results this week: Risks to the upside given strong peer results, recent industry price increases and easy year on year volume comparables.

Balance Sheet: We anticipate management will highlight strong free cashflow characteristics and further progress in terms of net debt reduction.

Key Metrics: Div Yield: 0% P/E 2010: 10x EV/EBITDA: 6x

Risks: Weak management guidance on corrugated prices and European demand outlook and closing of credit markets.

Next Catalyst: Q4 results February 10th

Ryanair - Buy Previous close (€3.37) Price target (€4.30) Analyst: (Edward Keeling)

Strong Q3 results: Increased full year net profit guidance support our positive investment thesis.

Average Fare: Fare trends improving amid route maturity & favourable industry capacity dynamics.

Cost Base: Lowest cost base continues provide competitive advantage versus peers.

Balance Sheet: €2.4bn of cash reserves and just c.€200m net debt.

Cash Distribution: c.€0.68c a share to be returned to shareholders by FY2013

Key Metrics: Div Yield 0% P/E 2010 14.8x

Risks: European economic deterioration, oil price spikes and weak sterling.

Next Catalyst: Traffic figures 3rd March

GSK - Buy Previous close (1206p) Price target (1325p) Analyst: (Oliver Gilvarry)

Strong Results: The company delivered Q4/Full Year results with Turnover, Key Drug Sales and EPS all beating consensus forecasts.

Cost Savings: The company announced plans to reduce costs by £500m by 2012

Emerging Market Growth: The company's potential in Emerging Markets was highlighted by the 20% growth achieved in the fourth quarter.

Key Metrics: Div Yield 6% P/E 2010 10x

Risks: Increased regulation and pricing pressures

Next Catalyst: Q1 Earnings release 28th April

Aviva - Buy Previous close (366p) Price target (520p) Analyst: (Oliver Gilvarry)

Sales Business figures beat : Aviva's sales figures released last week ahead of expectations.

Recent bad weather impact : Increase in claims due to bad weather in UK & Ireland only going to increase COR just above 98%.

Capital Position : Capital position within range management are comfortable with at £4.5bn.

Key Metrics : Div Yield 6.7% P/E 2010 6.0x

Next Catalyst : Full year results on March 4th.

Risks : Momentum in sales in Q4 not continuing in 2010.

Key Market Moving Events

MONDAY

Corporate

Lufthansa(Traffic), Hasbro(Q4), Loews Corp (Q4), Dyckerhoff(Prelim).

Economics

EU Sentix Investor Conf (09:30).

TUESDAY

Corporate

United Drug(Trade), SAS(Final), JBS(Q4), British Land(Q3), Hartford Financial(Q4), Principal Financial(Q4), Walt Disney(Q1), Biogen (Q4), NYSE Euronext(Q4), Pulte Homes(Q4), Coca-Cola (Q4), Vulcan (Q4).

Economics

UK RICS House Prices(00:01), Ger Trade Bal Imports/Exports (07:00), Ger Current A/C & CPI (07:00), UK Trade Bal(09:30)

WEDNESDAY

Corporate

Vestas Wind(Q4), Peugeot(Final), Air France-KLM(Q3), Elan(Q4), SmurfitKappa(Q4) Sanofi-Aventis(Q4), Arcelor Mittal (Final), Dean Foods (Q4), NY Times(Q4).

Economics

UK Ind.Prod & Manuf Prod(09:30), BoE Inflation Report(10:30), US MBA M'gage Apps(12:00), US Trade Bal.(13:30).

THURSDAY

Corporate

KBC (Final), EDF(Final), Total(Final), Renault (Q4), CreditSuisse(Final), BT (Q3) Diageo (Int), Rio Tinto(Q4), Greencore(AGM), Thomas Cook(Trade), RollsRoyce(Prelim)

Economics

ECB Mthly Report(09:00), US Retail Sales & Jobless Claims(13:30) US Business Inventories (15:00). Spain Q4 GDP.

FRIDAY

Corporate

Saab(Q4), ENI Spa(Prelim), Shaftesbury(Trade), SCANA Corp(Q4), Thyssenkrupp(Q1)

Economics

Ger GDP (07:00), EU Ind Prod & GDP (10:00), US Uni Michigan(14:55).

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