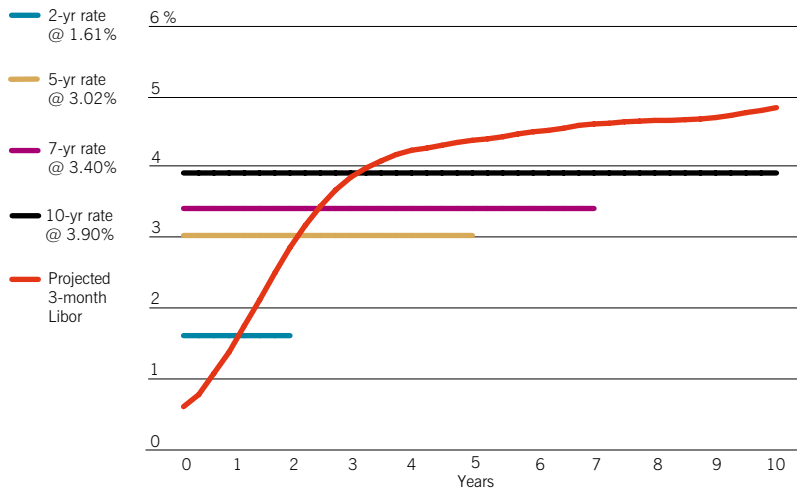


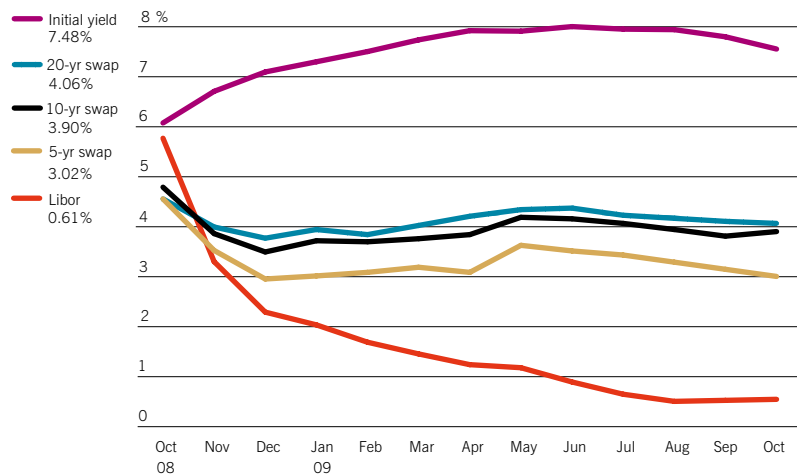
Cost of money Any action on short-term rates looks unlikely with economic growth difficult to detect and fears that recessionary forces may grow in 2010

Stagflation fears stalk market

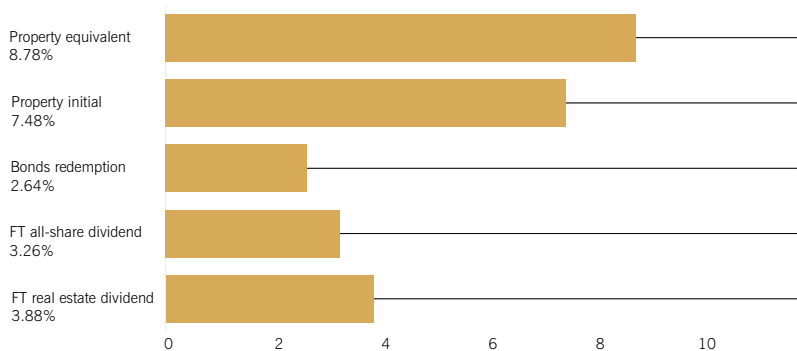
Swap rates and projected Libor



Property v borrowing costs



Comparative yields



● While UK short-term rates have been almost motionless in the course of the past month, there has been considerable movement over the longer period. The key 5-year rate ended October trading at around 3.35%. It then moved up to almost 3.75% early in November before collapsing towards the end of the month to 3.10%, its lowest level for more than six months. It is difficult to understand the rationale for the latest drop, given that inflation is starting to rise, retail sales are surprisingly buoyant and the government's finances are going from bad to worse.

● However, any action on short-term rates appears unlikely because economic growth is difficult to detect and because fears are growing that recessionary forces may strengthen in 2010 with the end of the VAT holiday, increased taxation and rises in the price of commodities, especially petrol. The potential for stagflation is becoming much greater.

John Rathbone, JC Rathbone

Libor the (variable) rate that banks charge each other for short-term (three-month) borrowing

Swap rate market interest rate for fixed-rate, fixed-term loans

Bond redemption yield the rate of return on UK gilts that mature in five to 15 years

FT dividend yield annual return on equities (dividends divided by market price)

Property equivalent yield annual rate of return on investment property, taking into account not just present rental income but also any future changes in that income

Property initial yield initial net income as a percentage of purchase price

Sources: IPD, FT, JC Rathbone Assoc