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A MID-YEAR OUTLOOK FOR U.S. STOCKS, ECONOMY

Investors in U.S. stocks may be suffering a bout of complacency that could cause harm to their wealth, according to Paul Atkinson, Head of North American Equities at Aberdeen Asset Management. Signs of complacency appear in measures of daily and expected U.S. stock market volatility, which have ebbed to historically low levels, and in the 30-plus months that have passed since the broad-market S&P 500 Index[1] declined 10% or more. Since the last correction of that size, in November 2011, the main driver of U.S. share price gains has been investors' willingness to pay increasing sums for each dollar of corporate earnings, reported or expected. Lesser contributors to recent stock market gains have been the larger sources of long-term total returns—dividends and profit growth. On the upside, the U.S. economic recovery appears to be ongoing, despite a pothole in growth in the first quarter. In the spirit of the Fourth of July, Atkinson encourages investors and their advisers to develop independent views of financial market and economic conditions.

Paul Atkinson, Head of North American Equities at Aberdeen Asset Management, comments:
"As America celebrates the Fourth of July, we are reminded of the vital role that independence plays not only in our politics but in our financial markets---the nation's engines of investment, job growth and opportunity. Independence affords entrepreneurs the ability to start new enterprises, gives owners of capital the ability to back the enterprises they believe are the most likely to compensate them for the risk of loss and ultimately leads to the creation of jobs. In asset management—and especially for bottom-up, fundamental managers such as Aberdeen—independent thought is critical. Investors are well served when they, or their advisers on their behalf, develop independent views of the economy, market conditions and, especially, individual investment opportunities. Unquestioning acceptance of consensus viewpoints invites becoming engulfed by the tides of greed and fear. Today, our view at Aberdeen is that, while opportunities remain for careful investors, the broad U.S. stock market reflects complacency. Investors should consider whether their holdings, at current levels, offer them adequate compensation for risk."

On the U.S. stock market:
"Recent stock market gains have outpaced corporate earnings growth; therefore, valuation expansion has continued to be the main driver of performance. Despite higher valuations, share prices as a multiple of expected earnings remain in line with longer-term averages, which we do not view as prohibitive.

We do, however, expect the market to be directed by underlying earnings and cash-flow growth as opposed to any considerable multiple expansion. As the market has not experienced a major correction in two and a half years, we would not be surprised to see such a decline in the coming quarters. Likely catalysts for a correction, in our view, include disappointing macroeconomic or political developments rather than any company-specific factors. However, we remain optimistic about the long-term fundamentals of the market and continue to expect mid-single digit operating profit growth for the remainder of 2014, with additional returns generated by corporate share repurchases and dividends."

On Federal Reserve policy:

"Investors famously threw a 'taper tantrum' in May 2013, when then-Federal Reserve (Fed) Chair Ben Bernanke suggested the end might be near for 'quantitative easing,' a series of monthly bond purchase programs that has raised the level of assets on the Fed's balance sheet from less than $1 trillion on December 31, 2008 to more than $4 trillion today. However, we believe any concern that the Fed will start to raise its target for short-term interest rates as soon as it stops buying U.S. Treasury bonds and mortgage-backed securities will prove unfounded. At the current pace of deceleration in the Fed's bond purchases—and given the meeting schedule of the policy-setting Federal Open Market Committee (FOMC)—the last purchases could occur in December 2014. That could lead to a rate hike at the first FOMC meeting in 2015, in late January. We don't think it will, however. The minutes of the FOMC meeting of April 29-30, which were released in May, revealed broad agreement by members that maintaining economic stimulus in an effort to reduce unemployment does not risk an uptick in inflation. The Consumer Price Index (CPI)[2] rose just 2.1% during the 12 months ended May 31, close to the Fed's 2% target. Under the leadership of new Fed Chair Janet Yellen, who has made clear her focus on the still-weak U.S. labor market, the U.S. central bank is likely to forestall rate hikes for a number of months after the conclusion of its bond-buying campaign. The recent revision in the government's estimate of first-quarter economic activity—to an annualized decline of 2.9%—should, in our opinion, bolster the case inside the Fed for a continuation of loose monetary policies."

Atkinson concludes:

"In our view, U.S. stock market volatility may rise in the near term, driven by uncertainty around interest rates and global geopolitical issues. The fiscal issues have gone quiet for now, but ultimately we believe the numerous cases of corporate tax inversion will encourage the U.S. government to rework policy. However, we think that this may take years.

Corporations remain in good shape, in our opinion, and have continued distributing capital, but anecdotally now also seem more focused on mergers and acquisitions (M&A) and capital investment than six months ago. The issue for many companies remains finding revenue growth amid what remains tepid economic growth, and slower contribution from emerging markets."

[1] The S&P 500 Index is an index of 500 selected common stocks, most of which are listed on the New York Stock Exchange, that is a measure of the U.S. stock market as a whole. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

[2] The Consumer Price Index is a measure of the change in the weighted average prices of a basket of consumer goods and services, such as transportation, food and medical care.

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Notes to Editors

About Aberdeen Asset Management

Aberdeen is a global asset management group. Formed out of a management buy-out in Aberdeen, Scotland, in 1983, Aberdeen is a FTSE 100 company operating on-the-ground in over 25 countries across Europe, Asia and the Americas.

The Group is defined by its main focus on asset management, including equities, fixed income, property and multi-asset portfolios. All investment solutions are driven by its commitment to straightforward, transparent investment approaches that stress intensive, first-hand research and a long-term view.

Further information about Aberdeen can be found at www.aberdeen-asset.com