



TRILOGY
GLOBAL
ADVISORS

Market Comments

March 4, 2008

Global equity markets posted nominal losses for February in U.S. dollar terms with the MSCI World Index falling by 0.6% for the month. Emerging market equities surged during February with the MSCI Emerging Markets Index gaining 7.4% in U.S. dollar terms.

Global financial markets continued to be whipsawed in February between ongoing fears about the near-term negative impact of a U.S. recession offset by speculation that the longer-term effects of aggressive Fed easing will be to boost both global growth and inflation. Financial stocks suffered as credit spreads widened reflecting near-term fears about further fallout from declining U.S. home prices. At the same time, emerging-market and commodity-related stocks surged based on expectations that the global economy will remain firm despite concerns about the U.S. Reflecting rising commodity prices, expectations of long-term U.S. inflation also rose sharply as measured by the gap between nominal U.S. Treasury yields and TIPS (inflation-protected securities).

The Fed is now widely expected to cut the Fed funds rate by another half point to 2.5% at its next meeting on March 18th. With the yield on 2-year U.S. Treasuries approaching 1.5%, it is clear that market participants expect further significant rate cuts in coming quarters as the Fed tries to offset the impact of widening credit spreads and ongoing de-leveraging by financial institutions. We think the most likely outcome of these cross-currents will be a “muddle through” environment of sluggish growth for the U.S. economy and generally stronger growth in the rest of the world against a backdrop of continued weakness in the U.S. dollar. It remains to be seen whether rising inflation pressures in emerging markets like China will generate tough domestic monetary measures and major currency revaluations. That may be a story for 2009 and beyond.

In our global equity portfolios, we currently have approximately 48% exposure to North America, 29% to Europe, 14% to Japan, 6% to the emerging markets, and 3% to the developed markets of Asia-Pacific excluding Japan. In terms of sector exposures, we currently are tilted toward the information technology, consumer discretionary and health care sectors and are tilted away from the financial, consumer staples, materials, energy, and telecommunication services sectors.