TRILOGY GLOBAL ADVISORS

Market Comments

April 1, 2008

Global equity markets sold off sharply in the first quarter, with the MSCI World Index down 9.1% in U.S. dollar terms. The fall in equity markets was accompanied by a sharp decline in the value of the U.S. dollar against the yen and many European currencies, making the global market decline even more severe in terms of those currencies. In contrast, the U.S. dollar rose in value against the currencies of some nations like Canada and South Korea whose economies were expected to bear some of the brunt of economic weakness in the U.S.

Markets were buffeted by another wave of financial strains associated with the U.S. mortgage crisis and a slew of economic data that suggested that an economic recession had begun in the U.S. Recent surveys show that nearly 70% of professional forecasters now believe that the U.S. has entered recession compared to less than 40% at the end of 2007. Closely watched data on non-farm payroll employment declined in both January and February, helping to convince many observers that recession had begun. That said, certain reliable barometers such as initial unemployment claims and the unemployment rate had still not moved up decisively enough to signal that recession has begun, so it is still possible that the slowdown will not meet the technical definition of recession.

Because of concerns that a recession could create a vicious circle of rising unemployment, rising mortgage debt defaults, and further financial turmoil, the Fed has responded forcefully to weak economic data and cut the Fed funds rate three times for a total reduction of 2% during the quarter. That brings the Fed funds rate to 2.25% compared to 5.25% last September. The Fed also broke new ground by expanding its lending facility to primary broker/dealers in the wake of the Bear Stearns collapse. That move has reduced the risk of a run on other primary broker/dealers and helped restore market confidence. Market perceptions that further Fed rate cuts are the only tool for addressing the credit crisis have led to sharp weakness in the U.S. dollar, massive speculative buying of commodities, and rising inflation expectations. One way out of the Fed's dilemma may be more active fiscal measures in the form of direct assistance to homeowners, which could reduce the need for further Fed action. That could potentially stabilize the dollar and bring down commodity prices. So decisions made by Washington as to the appropriate mix of monetary and fiscal measures for dealing with the mortgage crisis are likely to be critical to overall equity market and sector dynamics in the months ahead.

We remain optimistic that policy actions will limit the U.S. slowdown to being short and shallow, and expect some softness of commodity prices to help ease inflation concerns. With global equities trading at about 12 times forward earnings, equities continue to look quite attractive relative to government bonds. 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, materials, consumer staples, energy, and telecommunication services sectors.