



**TRILOGY  
GLOBAL**  
ADVISORS

# Market Comments

June 1, 2008

Global equity markets posted additional gains in the month of May, adding to their strong performance thus far in the second quarter. In U.S. dollar terms, the MSCI World Index rose by about 1.5% during the month, which left the index up 6.9% for the quarter and down just 2.8% for the year. Emerging market equities also gained during the month of May, with the MSCI Emerging Market Index posting a return of 1.9% in U.S. dollar terms. That brought the quarter-to-date return for emerging markets to a very strong 10.1%, and left them down just 2.0% year to date.

Gains in the equity markets in April came against the backdrop of falling bond prices in most major equity markets, with the yield on 10-year U.S. Treasury bonds having risen by 0.33% in the month to a level of 4.06%. Most of the increase in bond yields in May appeared to reflect growing inflation fears, since the yield on Treasury inflation-protected securities did not rise significantly during the month. Inflation fears mounted as oil prices continued to soar, reaching more than \$135 a barrel toward the end of the month. Inflation concerns have also been evident in individual stock price movements, with the global materials and energy sectors posting gains of nearly 5% each during the month.

Economic data supports the view that the U.S. economy has narrowly avoided recession, with real GDP having grown at an upwardly revised 0.9% annual rate in the first quarter following an annual growth rate of 0.6% in the fourth quarter of 2007. The global picture has been even more robust, with the OECD reporting that the Group of Seven leading industrial nations posted annualized real GDP growth of 1.9% in the first quarter. That is just slightly below the average annual growth rate of 2.0% posted over the last seven years, and suggests that the global credit crisis has had only a muted impact so far on the overall level of global economic activity. Most economists predict that the global economy will muddle through the current period of uncertainty with sluggish growth in the advanced industrial nations and continued robust growth in the emerging markets, with the developed-world growth slowdown likely to deliver some easing of inflation pressures. An incipient easing of energy and other commodity prices at the end of May lends support to that view, which also represents our base case scenario. The risk is that if energy and commodity prices start to move higher again, central banks may have no choice but to begin raising rates in the second half of the year to engineer a more severe global slowdown in 2009.

In our global equity portfolios, we currently have approximately 50% exposure to North America, 27% to Europe, 13% to Japan, 6% to the emerging markets, and 4% to the developed markets of Asia-Pacific excluding Japan. In terms of sector exposures, we currently are tilted toward the information technology, health care and consumer discretionary sectors and are tilted away from the financial, materials, consumer staples, energy, and utilities sectors.