



TRILOGY
GLOBAL
ADVISORS

Market Comments

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The third quarter was a tumultuous period for global equity markets, with the failure of Lehman Brothers in mid-September creating massive strains in global credit markets against the backdrop of faltering growth in most major economies. In the wake of the Lehman Brothers collapse and the subsequent rescue of insurance giant AIG, interbank lending markets have seized up globally and have required massive liquidity support from central banks around the world. The highly contentious debate in the U.S. Congress on whether to pass a comprehensive rescue package has added to market volatility, as has evidence that the credit crisis has crippled many European banks and so far required European authorities to come to the aid of five major banks.

In the midst of financial turmoil, economic data continues to point toward an intensification of global recessionary dynamics in most major nations. According to a weighted average of purchasing managers surveys by Barclay's Capital, an aggregate global index of new orders for manufacturers has plummeted to the lowest level since the severe global recession of 1980. Regardless of what progress is made by policy makers in restoring some degree of normalcy to the global financial system, the recession train has already left the station and points to several quarters of very weak global growth ahead. Even China, which some analysts expected to reaccelerate after the Olympics-related shutdown of industrial production, has shown signs of weakness extending through September. Further weakness in real growth in China and other major emerging market nations looks increasingly likely in view of the weak external environment for those nations' exports due to recessions in the U.S., Europe and elsewhere.

Fears of accelerating global inflation, which were so common just a few months ago, have largely subsided in response to the credit crisis and recessionary data. With the price of oil having fallen to \$100 a barrel from \$147 a barrel in early July, headline inflation data in most nations should fall rapidly toward 2% or lower in coming months. One silver lining is that central banks may soon be in a position to embark on several rounds of massive coordinated easing and are most likely waiting on the actions of the U.S. Congress and European authorities to provide complementary fiscal measures. Accordingly, while real sector economic data will almost certainly remain very weak for the next several quarters, forward-looking financial markets may focus on potential improvements in the economic outlook in 2009 that should result from decisive measures to restore normalcy to the global banking system by providing both monetary and fiscal support.

In our diversified global equity portfolios, we currently have approximately 46% exposure to North America, 27% to Europe, 12% to Japan, 9% to the emerging markets, and 6% 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 away from the financial, industrial, energy, and telecommunication services sectors.