



TRILOGY  
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ADVISORS

# Market Comments

December 1, 2008

The global economic crisis continued in November as evidence of plunging consumer and business confidence mounted around the world. Most major equity markets posted new crisis lows during the month while long-term interest rates declined sharply as investors sought safety in government bonds. Commodity prices have remained under pressure in response to weakening demand in both developed and emerging market nations.

Financial market volatility has remained high as investors contend with shockingly bad economic and company data, set against the backdrop of increasingly aggressive policy measures aimed at restoring growth. Purchasing manager surveys published in November from around the world showed fourth quarter economic activity declining at the fastest rate since the recession of 1982. Many U.S. economists now anticipate that the U.S. economy will contract at a 4%-to-5% annual rate during the fourth quarter and similar rates of decline would not be surprising in many other major economies. Clear evidence that the global slowdown has also hit emerging market economies hard came from China, which reported that electricity output had declined 4% in October from a year earlier.

Central banks have almost uniformly moved toward easier monetary policy in recent weeks, with the Bank of England slashing rates by 150 basis points in November from 4.5% to 3.0%, while the European Central Bank moved in a more measured fashion by cutting rates from 3.75% to 3.25%. The U.S. Fed had already cut its target funds rate to 1% in October, but has supplied liquidity to the market so aggressively that the funds rate has consistently traded below the target rate. The Fed has also continued to move in the direction of quantitative easing, which is likely to involve direct purchases of Treasury and Agency securities to drive down long-term bond yields and mortgage rates. Chinese policy makers have also announced aggressive stimulus measures including a 4-trillion yuan (\$586 billion) fiscal package and the most aggressive cuts in lending rates since 1997. Although none of these measures is likely to immediately impact global growth, the intention of policymakers is clearly to engineer a global economic recovery in 2009.

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In our diversified global equity portfolios, we currently have approximately 47% exposure to North America, 26% 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 energy, industrial, financial, materials, utility, and telecommunication services sectors.

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