TRILOGY GLOBAL ADVISORS

Market Comments

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Global equity markets plunged once again in January in response to dismal reports on economic activity from around the world and increasing concerns about the solvency of major banks. It now appears that industrial activity across the world collapsed at an estimated annual pace of nearly 20% in the fourth quarter of 2008, reflecting the deepest global downturn in over 50 years.

The strikingly bad economic data has prompted lower GDP growth forecasts from many prominent forecasters, with the International Monetary Fund having slashed its forecast for 2009 global GDP growth from 2.2% in November to only 0.5%. Many private-sector forecasts are even more cautious on the outlook based on the stunning collapse in international trade flows seen in the massive credit crisis that erupted in the aftermath of the Lehman bankruptcy last September.

Some of the most shocking data on the scope of global economic paralysis has come from Asia, with exports from nations like Japan and Korea down in December by nearly 35% from a year earlier. Korea's GDP declined at a 21% annual rate in the fourth quarter, while Japan's GDP appears to have declined at a 12% annual rate in response to a 50% annualized decline in exports during the quarter. In contrast, the report that U.S. GDP declined at a relatively modest annualized rate of 3.8% looks relatively benign in comparison, although few doubt that another severe decline in global GDP is on tap for the current quarter.

On the positive side of the ledger, most forecasts now call for a resumption of modest growth in the second half of 2009 as economies begin to respond to massive stimulus efforts that are in the pipeline. The U.S., China and Japan have announced the most aggressive stimulus measures to date, with the U.S. aiming for fiscal stimulus of nearly 4% of GDP this year and next, while Japan is committed to a program in excess of 2% of GDP. China's contribution is harder to pin down, but is likely to be substantial. Oil-consuming nations are also likely to benefit from a boost to consumer spending power based on the sharp drop in oil prices from last year, which could be worth about 2.5% of GDP in many industrial nations. There are also numerous signs that credit markets are beginning to thaw in response to the Fed's aggressive measures to boost its balance sheet, and it seems virtually certain that the Fed will continue to aggressively pursue policies aimed at easing credit conditions.

The full extent of global credit losses remains highly uncertain, but the total losses are now widely expected to be at least double to triple the roughly $1 trillion in losses reported to date. Many major nations are actively considering "good bank, bad bank" structures to address potential bank insolvency issues, but the degree to which government policies could effectively wipe out shareholders remains unclear.