TRILOGY GLOBAL ADVISORS

Market Comments

March 4, 2009

Economic data released in February has been stunningly grim and global equity markets have responded accordingly. The MSCI World index declined 10.2% in U.S. dollar terms during the month. That put the year-to-date return at minus 18.1% following abysmal performance in 2008. From the market's peak at the end of October 2007 to its month-end level of February 2009, the MSCI World index has suffered a cumulative negative return of 54%.

Real GDP reports for the fourth quarter from most industrial nations show a sharp decline in economic activity, with GDP declining at an annual rate of 6% in the U.S and Eurozone and at an alarming rate of nearly 13% in Japan. Factory output has been collapsing nearly everywhere, with figures for the most recent month down sharply year-on-year. Here are a few sample data points: Taiwan (-43%), Ukraine (-34%), Japan (-30%), Singapore (-29%), Sweden (-20%), Korea (-19%), Russia (-16%), Brazil (-15%), Italy (-14%), Germany (-12%), France (-11%), US (-10%), and Britain (-9%).

Almost all of the downturn has been concentrated in the last five months, illustrating the disastrous impact of the Lehman bankruptcy on the global economy. With trade finance having been curtailed drastically, export-dependent nations have been hit particularly hard. That has left inventories piling up around the world, arguing for further weakness in manufacturing activity in the months ahead. Uncertainty about the potential for banks to be nationalized in major nations, wiping out shareholders, has also created a "capital strike" in equity markets and contributed to financial paralysis that is plaguing the global economy.

The only good thing that can be said about the current downturn is that it is so pronounced, that it may raise the odds of a V-shaped recovery as unprecedented monetary and fiscal policy measures hopefully begin to be felt in the second half. With the US, the UK, Canada, Japan and perhaps now even the European Central Bank moving toward unconventional monetary policy together, there can be some hope that resulting declines in market-determined interest rates can help boost final demand and generate inventory restocking cycles in the second half of the year. Another boost to global growth prospects may also come from China, which is reportedly ready to announce a second major stimulus package soon, augmenting the 4 trillion yuan in spending that was announced last November.