TRILOGY GLOBAL ADVISORS

Market Comments

September 2, 2009

Positive economic news flow continued to support global equity markets in August, although China's market was a potentially important exception to the generally positive trend. The MSCI World Index posted a healthy gain of 4.1% in August, bringing the year-to-date gain to 20.1% in U.S. dollar terms. In contrast, after posting a year-to-date gain of more than 51% through July, the MSCI Emerging Markets index slipped 0.4% during August based largely on weakness in China and the financial sector.

A variety of economic data from around the world continues to point toward a broad-based global economic recovery which is continuing to gather momentum. In the U.S., evidence of leaner inventories and a broadening recovery in durable goods production has lead many economists to boost their forecasts for real GDP growth in the second half of 2009 to 3% or higher. Similar conclusions are being drawn by economists for Europe as well in view of a sharp move up in business sentiment surveys for both manufacturing and service industries, with several service industry surveys showing record or near-record gains in August. In Japan, real GDP expanded at a 3.7% annual rate in the second quarter after posting sharp declines in the previous two quarters. Recent data on industrial output suggests that Japan is continuing to recover, with industrial production up by 1.9% in July after gaining 2.4% in June.

In emerging Asia, China appears to remain on track for robust growth of 8% in 2009 as government policy attempts to shift its focus toward stimulating consumption rather than investment in an attempt to achieve more balanced growth in the future. The shift in focus has led to a significant correction in the Chinese equity market over concerns that bank lending would be reined in too abruptly, but most Chinese economists believe that both monetary and fiscal policy will remain accommodative for some time to come. In India, growth continues to recover with real GDP up by 6.1% from a year earlier and expected growth of 8%-to-9% over the next few years as the impact of the global economic crisis and this year's drought start to fade.

In short, the good news is that the global economy seems to be recovering much faster than was widely anticipated a few months ago. Yet with global unemployment 3% higher than in early 2008, central banks are likely to be reluctant to tighten monetary policy for some time to come. That suggests to us that a sweet spot for equity markets may persist for several more quarters as corporate profits continue to surge while economic policy remains stimulative.