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Market Comments

November 1, 2009

After rising in seven of the past eight months, global equity markets posted modest losses in October while commodities pulled back and the U.S. dollar rose. After rising more than 60% from its bottom in early March in U.S. dollar terms, the MSCI World Index fell by 1.8% in October but remains up nearly 23% for the year to date.

Stock markets in October generally ignored strong earnings reports and robust economic data in recent weeks, while market participants appeared increasingly concerned about the sustainability of the global economic recovery. In the U.S., news that the economy grew by 3.5% in the third quarter confirmed that the recession was over even as consumer confidence fell and weak labor markets continued to raise concerns about the outlook. The composition of the U.S. GDP report was quite favorable, with continued declines in inventories setting the stage for a strong contribution of inventories to GDP growth over the next several quarters. Overseas economic data has also remained encouraging. Japan's industrial production in September was up nearly 24% from its low point and is slated to grow by another 5% in October and November as Japan's exports continue to surge along with exports from other Asian nations. In the Eurozone, economic reports have largely continued to surprise to the upside, with the Eurozone purchasing managers index having surged to 50% in October from 40.6% the previous month. Emerging market economies have also generally reported buoyant economic data, with China's manufacturing purchasing managers' index for October posting a robust reading of 56.6%.

To some extent, market participants may be concerned that the global economic data has been so favorable that it will accelerate the exit strategies of major central banks from the highly stimulative monetary policy stances adopted during the global financial crisis. After the Bank of Israel kicked off the global rate normalization process in August, a number of other smaller central banks have followed including the Reserve Bank of Australia and Norway's central bank. De facto exit strategies are already evident in large emerging market nations like China and Brazil, which encouraged a huge surge in lending by state-owned banks in response to the global financial crisis and are now attempting to scale back

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lending growth. That said, high unemployment and excess capacity in the largest industrial nations suggest that monetary policy will remain accommodative well into next year in the U.S., Japan, and Europe, suggesting that a sweet spot for equity markets will continue despite recent jitters.

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