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Market Comments

December 1, 2009

Positive Global equity markets generally posted robust gains in November, despite a month-end financial sector scare triggered by news that Dubai World would seek to restructure up to \$59 billion of its debt. The MSCI World Index generated a total return of 4.1% in U.S. dollar terms in November, bringing its year-to-date rise to 27.7%. Emerging markets fared even better during the month, with the MSCI Emerging Markets Index posting a total return of 4.3% for the month, bringing its year-to-date return to an impressive 71.7%.

Global economic data continues to support the view that the global economy bottomed out in the first half of the year and has begun to grow again following the financial trauma of 2007 and 2008. With most nations now having reported growth for the third quarter of 2009, it looks as if global GDP grew at about a 3.5% annual rate, which is nearly 1% above its long-term trend rate of growth. Much of the growth came from consumer spending, with some boost from auto sales schemes, while growth in both GDP and industrial production was also supported by a more modest pace of inventory reduction. Fortunately, overall global growth seems set to continue in the fourth quarter and into 2010 while the composition of growth broadens out to include a pickup in business capital spending as the contribution from inventory dynamics accelerates further. The improvement in real sector indicators has reflected continued improvement in financial conditions, with the Bloomberg Financial Conditions Index continuing the upward trend it has maintained since October 2008. As we have mentioned previously, the Bloomberg Index has now experienced an improvement of more than 11 standard deviations since October 2008 and should be considered a positive leading indicator for U.S. and global real GDP growth over the next several quarters.

Continued weakness in the U.S. dollar and corresponding strength in commodity prices also reflect the general improvement in risk appetite over the course of the year, while generating considerable anguished commentary about the risk of bubbles triggered by low interest rates in the U.S., Europe and Japan. We see little evidence of bubble valuations in most developed country stock markets or real estate markets, although it does seem clear that monetary policy in certain emerging market nations like China and Brazil will need to be normalized well before the Fed is in a position to raise interest rates. That process of normalization is likely to be a major story over the next twelve months and seems destined to require many emerging market nations to let their currencies appreciate against the U.S. dollar in order to curb inflationary pressures and promote international trade rebalancing.