TRILOGY GLOBAL ADVISORS

Market Comments

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Despite recent jitters in response to Dubai's debt crisis and Greece's fiscal problems, global equity markets posted solid returns in December with the MSCI World Index posting a total return of 2% for the month. That brought the total return for 2009 to 30% following a volatile ride with the index down 25% early in the year followed by a rise of 73% from the low hit in early March. The MSCI Emerging Markets Index also continued to perform well in December, posting a total return of 4% for the month and bringing its total return for the year to a robust 78%. Emerging Market equities as an asset class demonstrated impressive relative performance last year as well, falling by only 16% early in the year followed by a rise of 112% from the low hit in early March.

Economic news in recent weeks has remained very supportive of the view that the world economy is back into a growth mode after contracting violently in late 2008 and early 2009 in the wake of the Lehman bankruptcy shock. Even though U.S. real GDP growth for the third quarter came in at an annual rate of only 2.2%, it now appears likely that fourth quarter growth will come in at an annual rate of 4%-to-5% and odds of a "double-dip" recession look quite low. The Bloomberg Financial Conditions Index continued to improve during the fourth quarter, rising from -0.47 at the end of September to +0.20 by the end of December. That means that financial conditions are now better than the average posted over the 1991-to-mid-2007 period, which represents a remarkable recovery from the catastrophic low of minus 12 standard deviations reached in October 2008. We view the improvement in financial indicators as a strong leading indicator of future inventory rebuilding not only in the U.S., but across the major industrial nations as well. It now looks likely that the U.S. could see growth in 2010 of 3.5%, with Europe growing 2.5% and Japan by 2.0%, with all regions experiencing both inventory rebuilding and a rebound in durable goods spending from extremely depressed levels.

A key issue is whether job growth in the U.S. begins to recover in a robust fashion in the next few months because that could push ahead expectations of the Fed's tightening while putting upward pressure on the dollar and downward pressure on commodity prices. Another key issue is whether the combination of 30% M2 money growth in China along with speculative froth in property markets will lead to generalized inflation pressures that prompt a significant monetary tightening.

More generally, the starkly different pace of economic healing between the developed nations and emerging market nations may be a critical source of market tension in 2010 if key emerging market nations like China, Brazil and South Korea decide they need to tighten monetary policy and permit their currencies to appreciate ahead of developed nations or other emerging market competitors.

In short, we remain optimistic that the impressive economic stimulus measures of 2009 have set the stage for a self-sustaining global economic expansion to continue in 2010. An important challenge to investors in 2010 may be to avoid overreacting to the occasional bouts of volatility that are likely as policymakers try to orchestrate graceful exits from the extraordinary policies put in place in 2009.