

"Outlook 2011 ~ A Leader's Perspective"



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Investors Must Adopt A Global View

The world is much smaller than it once was. With improvements in technology and the advance of emerging markets, human, intellectual and financial capital flow freely around the world. To be successful in 2011, investors must adopt a global view.

Over the next several years, we believe growth of the middle class in emerging markets will be an important theme. Investors should use weakness to build long-term positions in emerging markets where the local consumer is taking a more important role.

Shorter term, we believe the U.S. markets will provide positive returns during early 2011. Investors should then reassess the investment landscape. They may find a less friendly environment and should consider taking profits before a second half correction spoils the party.

The U.S. economy will continue on a path of slow growth, advancing enough to avoid recession but not enough to provide quick relief for high levels of unemployment. Excess labor, manufacturing capacity and surplus housing mean inflation will not be a significant problem for 2011. The long-term risk is for higher inflation when the consequences of government stimulus begin to bite. We believe the thirty year decline in interest rates is ending. Investors should consider selling longer dated maturities to reduce interest rate risk and substitute moderate levels of alternatives, high yield and variable rate debt.

