

ECONOMIC AND INVESTMENT FORECAST

July 2011

The past decade has witnessed significant change in the global landscape as former communist government regimes adopted more democratic principles and introduced capitalistic economic systems. These changes have stimulated economic growth in developing countries and led to higher standards of living, but also created inflation locally as well as around the world. Demand for energy, precious metals, and agricultural products has caused dramatic increases in commodity prices, with a significant portion associated with massive infrastructure projects, especially in China. In India, annual price increases are running at a destabilizing clip of 8% per year. Leaders of the larger emerging countries, China and India, have responded with tighter monetary policy, including higher interest rates, with the expectation that slower growth will alleviate the inflationary pressures.

The mature economies, including Continental Europe, Japan, and the U.S., are recovering slowly from the recession. High unemployment in the U.S. and Europe, coupled with aging populations, limit the policy options available to address high government debt levels that were amassed over decades, in the form of lavish entitlement programs. U.S. and European political leaders are currently debating austerity measures in the spirit of fiscal responsibility, and we are hopeful that the proverbial “can” will not be kicked farther down the road. In the meantime, continued financial market volatility can be expected as the Democrats and Republicans wrangle over the deficit reduction process. We also anticipate continued social unrest, similar to what was witnessed on the streets of Greece and in the Middle East.

As the world has become more inter-connected in many ways, whether by way of the ubiquitous internet or increased cross-border trade, government leaders and central bankers have been encouraged to develop and synchronize policy with their international counterparts. Fortunately, we have witnessed increased instances of this cooperation, which has led to more thoughtful and effective policy. An example of this improved international policy coordination has been the response to this past recession. During this crisis, central bankers and political leaders around the world coordinated and deployed a large global stimulus package which minimized the depth of the contraction and reduced the odds of a double-dip recession. More recently, China participated in the financial aid package that allowed for a faster initial resolution of the recent European Union debt crisis. As countries of all sizes continue to work through the imbalances present in the global economy today, we are hopeful that this spirit of cooperation will persist, and lead to orderly change and progress.

Despite the economic emergence of China and India, business trends in the U.S. remain key drivers for the direction of the global economy. U.S. GDP growth this year was strong at the outset followed by an apparent “soft patch” in the second quarter. Growth expectations for 2011 in total are for 2.6% GDP growth in the U.S., and 4% GDP growth for the Global economy. It has been a very resilient economic expansion to this point - one that withstood major disruptions from the Japan earthquake, a harsh winter in the U.S., unrest in the Middle East, and high and volatile commodity prices. We maintain our positive outlook for the stock market globally, assuming that oil doesn’t significantly exceed its current \$100 price per barrel, and with the expectation that political leaders will address the budget deficit in a responsible manner.