



## Market Comments

June 29, 2010

This has the same look of recent comments that we have made over the past month or so on very poor market days. At this point in the day, U.S. markets are off 2% or so, and European markets down 3% or more. We may be repeating ourselves on all of this but inquiries will pick up and so we want to continue to summarize as best we can. Again, we talked a lot about market concerns recently, and those concerns remain largely the same:

- World-wide de-leveraging and consequences.
- Euro-zone debt issue and consequences.
- Any and all geo-political concerns that might threaten global growth (and consequences).

This morning we can add to this:

- The recent drop in consumer confidence in the U.S.
- More direct evidence that economic growth is slowing considerably in China.

In the past month we have tried to lower expectations in terms of expected returns over the next 12 months or so, and perhaps a little longer. This past week Chairman Bernanke weighed in on this ongoing subject, and his comments were definitely more guarded than in recent months. "Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad - namely in Europe." The Chairman also noted that market expectations for when the Fed will raise interest rates have shifted notably in the past two months amid the problems in Europe – specifically pushed out further. The comment about interest rates may seem to have positive implications – that is, that low rates equal lower costs, and therefore all good. However,

any sentiment in that direction is, of course, offset by the reality that the central bank is being more specific about this because conditions for business continue to be average at best, and the Fed does not want to risk adding to that tentative environment by raising interest rates.

There were other examples of a more wary Fed – that recovery is “proceeding”, a change from earlier references that the recovery “continues to strengthen”. There were also very cautious references to continuing problems with joblessness, and that housing remains “depressed”, and that inflation, while at very low levels, has “trended lower” – again, adding to the growing fear that deflation may yet become the problem rather than inflation. In short, the Chairman’s comments were viewed by most economists as a downgrade – something our markets had perhaps not prepared for.

Adding to market angst today is also the message being sent by world bond markets – yields in the U.S. on the ten-year Treasury are back at levels not seen since early 2009 – an indication that bond investors are turning to safety for fear that economic conditions imply troubled waters ahead in other asset classes.

So, is this a time to throw up our hands – certainly not. It is highly likely that world-wide economic activity will slowly (very slowly) improve and that this modest improvement will keep the world out of a new period of negative growth. If this is the case, as we have suggested in recent months, returns will also be modest for the balance of this year and into 2011.

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