



## Market Comments - Emerging Markets

August 3, 2010

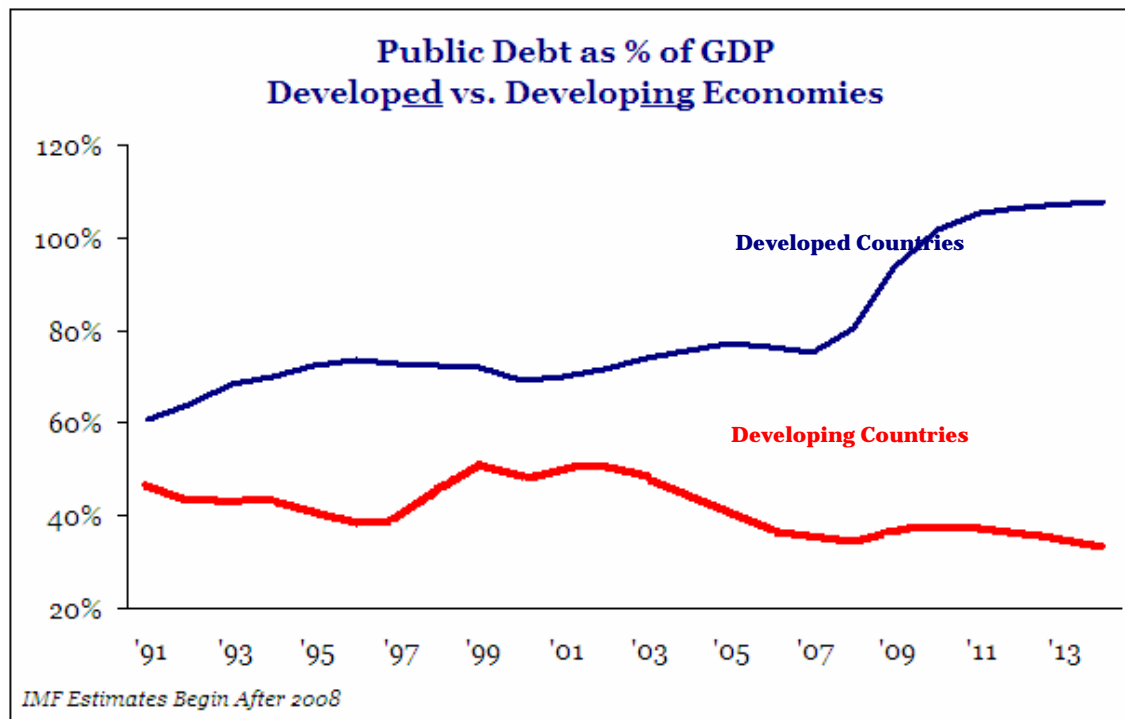
Much has been written over the past year about the recession of 2008-09 and the prospects for recovery currently underway, albeit at a very modest pace. The reasons for the 2008 recession will be debated for decades, but much more pressing now for investors is the recovery and by extension, the environment over the coming years for realizing acceptable levels of returns in equity markets.

The worldwide recovery is taking place. However, economic activity is proceeding at a very modest pace. North America and the Euro-zone are currently expected to grow output in the 1-2% range for the balance of this year and into next year. Emerging markets are expected to grow their economies at much higher rates. The hurdles for recovery remain the same as have been talked about for many months - deleveraging and new forms of regulation along with more restrictive monetary and fiscal policies in many countries. There is also the reality of higher taxes in many developed countries and eventually higher interest rates somewhere on the horizon.

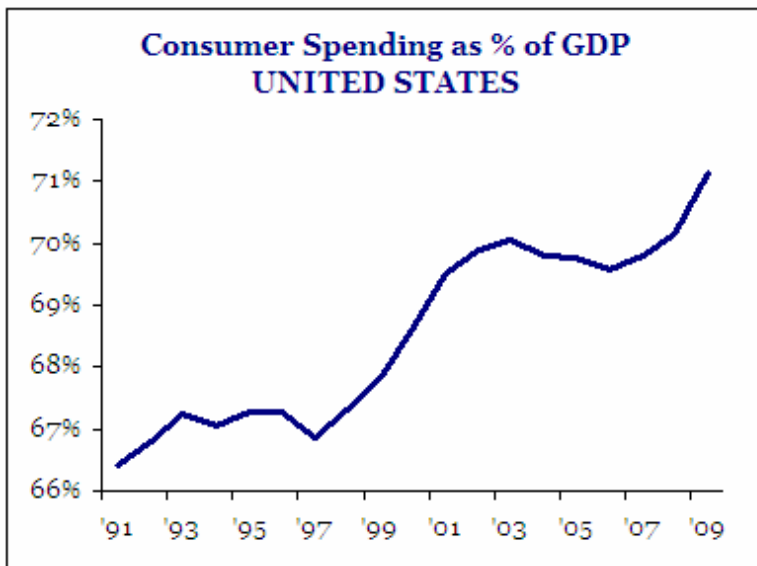
The economic landscape is not without some positives, even if seemingly small when looking at the broader environment for recovery and growth. It is true that government and central bank intervention seems to have spared the world of something much worse than recession and positive GDP comparisons are taking place. In the U.S., the actual level of GDP growth is closing in on levels that existed prior to the recession. After the depression, returning to pre-depression

levels of output took almost 15 years. Japan's so-called lost decade in the 1990s lasted for almost 10 years. The Sovereign debt crisis in Europe also appears to be receding, although not over by any means. Corporate managers also appear to be gaining confidence, declaring dividends and in many cases raising them. There has also been a steady increase in share buy-back programs. Free cash flow for nonfinancial corporations is near record levels, resulting in cash on balance sheets at all time highs as a percentage of assets.

In the shorter term, there is a growing view that emerging market countries will be a significant part of the engine that will provide support for economic recovery worldwide. Many developing countries are not as burdened by the debt loads that exist in developed nations as comparisons supplied by Strategas Partners and the IMF show:



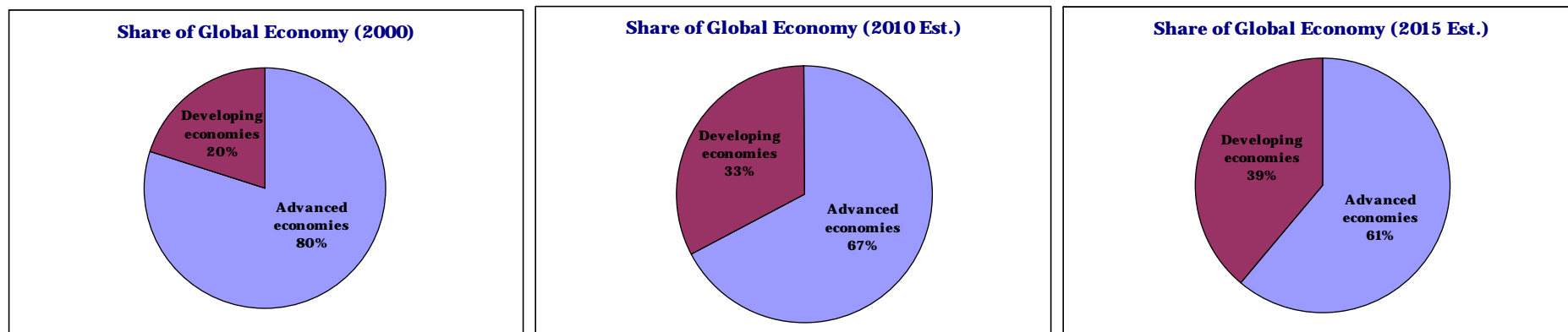
Many developing countries have also managed their monetary and fiscal houses better than some in the developed world - without the debt overload that now plagues more mature economies. Also, they have not suffered the financial services excesses that exist in other countries. Many economists also point to the relationships between GDP and consumption - China is a good example, where consumer spending is literally a fraction of that in the U.S. as a percentage of GDP.



Without some of the hurdles to recovery, many of these countries will enjoy much higher growth rates coming out of the economic difficulties of 2008 and 2009. Again figures supplied by Strategas Partners highlight this difference.

	<b>Real GDP Y/Y%</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>United States</b>	0.4%	-2.4%	3.1%
<b>European Union</b>	0.9%	-4.1%	1.0%
<b>Japan</b>	-1.2%	-5.2%	1.9%
<b>Developing Asia</b>	7.9%	6.6%	8.7%
<b>Newly Industrialized Asia</b>	1.8%	-0.9%	5.2%
<b>Brazil, Mexico, etc.</b>	4.3%	-1.8%	4.0%

Longer term, GDP growth rates are expected to continue at high levels compared to developed countries, with emerging market countries contributing almost 40% of world GDP by 2015. Much higher growth rates are not new news, of course. However, most of these countries have survived the economic trauma of 2008 and 2009 in relatively good shape and are poised to continue these higher rates of growth. This is quite remarkable when compared with their share of world output of 20% as recently as 2000.



The message in this comparison is that maintaining equity exposure to this asset class and in the economies in emerging markets is very important and investors should find an efficient way to accomplish that. Here at The Trust Company, we expect to continue to pursue this exposure directly as we have for years in an emerging markets exchange traded fund (VWO) and indirectly by our ownership in multi-nationals in our portfolios.

Allan Keyes  
Chief Investment Strategist