

# OUTLOOK 2009

## What's Next for the Markets & the Economy

### TRANSCRIPT

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#### **Global Outlook: Finding Opportunity in "Companies You Trust"**

First we think that investors need to be selective.

International markets are very likely to inhabit a big, fat trading range through much of 2009.

This is a classic trading pattern after a big equity boom and then a big bust.

The primary trend is likely to be sideways, so stock, country and sector selection will be more important than usual.

The second investment strategy we would follow is what we call "Best of Breed" stocks.

We think the international blue chips are the way to outperform international markets in 2009 and 2010.

Indeed, once market volatility subsides, equity markets should turn into a stock-pickers paradise.

We would note that companies with the best balance sheets, the best managements and the best products were massive outperformers in Japan in the 1990s, and they are very likely to be the companies to overweight this year and next.

How about the big toss-up between Japan and Europe in terms of their equity markets.

Coming into 2009 we prefer Japan to Europe for a couple of reasons.

First Japan is a less cyclical market and the global economy is not in very good shape this year.

Second, we believe the Japanese yen is undervalued, and therefore, exposure to Japanese assets is warranted.

Third the Japanese market has a very small financial sector whereas the European markets are still struggling mightily with the credit crunch in Europe.

What about emerging markets?

Well, it was the last asset class to be de-leveraged, and it is unlikely to be first out of the gates in the next bull market.

Tempting though it is to give up on emerging markets entering 2009, we should note the last EM bull market started in 2002 with low commodity prices, cheap valuations, devalued currencies and investor fear for risk assets.

All of those conditions are close to once again being matched in early 2009.

Downside risk is now somewhat limited in emerging markets, and in certain markets, such as China, we see valuations, relative growth, and a strong domestic consumer, which should allow absolute gains.

In conclusion we believe that 2009 will be a better year for international markets.

Equity markets are likely to remain volatile but are more likely to trade sideways rather than sharply lower.

The key message is to overweight the best companies; the companies you trust.

You are getting one of the best opportunities in the past several years to buy high-quality, global blue chips at reasonable prices.

Thank you very much.

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