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Weekly Investment Commentary

Risks to the Global Economy Should Remain Contained

March 21, 2011

Escalating anxiety over the damage from the earthquake in Japan and resulting nuclear reactor problems as well as rising tensions in Libya and the Middle East resulted in an aggressive selloff in equity prices early last week. Despite an end-of-week rally, stocks were down for the week as a whole, with the Dow Jones Industrial Average falling 1.5% to 11,859, the S&P 500 Index declining 1.9% to 1,279 and the Nasdaq Composite losing 2.7% to 2,644.

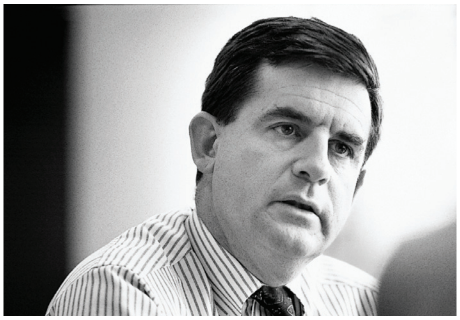
The events of the last several weeks serve as a reminder about how quickly potential risks can turn into downside reality. The regime changes in Tunisia and Egypt, other uprisings in the region, the escalation of the civil war in Libya and the potential for nuclear catastrophe in Japan have all worked together to drive investor unease higher and have caused significantly higher levels of market volatility. Predicting the exact outcome of any, let alone all, of these events is, of course, impossible, but based on the information we have today, our assessment is that none of these risks have yet derailed or will derail, the global economic recovery or the longer-term bull market in equities.

Taking a look at the Middle East, the biggest wildcard in our opinion is what might happen in Saudi Arabia. Given its prominence in the oil trade, any political disruption in Saudi Arabia would have a significantly higher impact than what we have seen already, but as we have discussed in previous weeks, Saudi Arabia's economic and political systems are more stable than those of its neighbors and the risks are correspondingly lower.

Regarding Japan, the current problems will no doubt act as a short-term drag on Japanese economic growth levels, but over the longer term we expect reconstruction efforts will help to make lower growth a temporary problem. As a result of all of these, we do not believe that the current risks dominating the headlines will have an overly significant impact. Should conditions worsen (particularly in terms of the nuclear crisis getting worse and/or a significant run up in oil prices) that may change, but for now we remain cautiously optimistic.

At present, we believe that the global economic recovery will stay on track, and we do not expect to see inflation rise noticeably in the developed world. Before the current risks developed a few weeks ago, the global economy had pretty solid momentum, and fundamentals remain strong. At the Federal Reserve's policy meeting last week, central bankers acknowledged the risks of higher oil prices, but also indicated that the Fed had a more upbeat assessment of the overall economy. Corporate profits have remained strong and preliminary indications are that corporations are not being negatively affected by the increase in energy costs. Indeed, corporate hiring plans have been accelerating, and we believe that jobs growth should continue.

In any case, however, short-term risks are clearly dominating market sentiment and confidence levels have receded. Markets have been in a corrective mode for the last



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couple of weeks and that trading environment is likely to persist. Last week, the S&P 500 Index reached a low of around 1,250. We think that level may be a low from which markets will experience a bounce (although that low may be tested again). We believe it will take some time, and additional clarity, to move past all of this.

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