



WorldView

Overview: *Contrary to popular impression, global growth continues apace. Several economies (China, India, Australia and S. Korea, for instance) are showing signs of overheating. Much of the developed world, of course, is experiencing much milder growth, and uncertainty remains elevated.*

Many governments are moving aggressively to arrest large deficits and high debt. This creates risk, particularly if done too rapidly. More positively, central banks appear to remain committed to low interest rates and are trying to accelerate lending. It's particularly difficult to know the net result in this cycle, but the likely outcome remains one of moderate global growth, in our view.



Tony Caxide
Tony Caxide, CFA®
Chief Investment Officer

North America

In 2010, the U.S. exhibited very strong growth until the spring, then a worrying summer lull. More recently, much of the news has been once again tentatively more positive. Housing and the consumer, in particular, are showing signs of improvement, although housing is coming from very low levels. Inflation remains muted and the market consensus has shifted to focus on the risk of deflation.

Canada, heavily impacted by commodity prices, has shown booming conditions, but is slowing. Mexico, in turn, although beset by drug-traffic-related political challenges, has actually performed quite well economically and has one of the strongest stocks markets globally.



Jeff Wilkins
Jeff Wilkins, MBA
Director, Portfolio Mgmt.

Asia

Japan's export-driven economy benefitted from a global recovery in the first half of 2010. More recently, however, the Yen appreciated almost 10% against other currencies and became a significant drag on markets. Thanks in part to Japanese government intervention, the Yen's appreciation has cooled.

Employment and consumer spending appear to be strengths, as does capital investment. Manufacturing and exports have paused and need close monitoring, but recovery in the latter is plausible given Japan's access to high-growth export markets. Long-term headwinds remain, including an aging population, lack of a strong coalition among political parties, and a large government debt burden.

The price-earnings ratio of Topix — the broadest stock index and the one most comparable to the S&P 500 — appears to be fairly or even potentially slightly undervalued.



Eric Shisler

Eric Shisler, CFA®
Vice President

Europe

The Eurozone remains a region divided. The second-quarter GDP rate of 4% appears attractive, but depends on Germany's auto and machinery exports. Deeper analysis reveals a troubled periphery, with many other countries facing weak demand in the face of large government deficits, high unemployment, and austerity measures.

The economic union and common currency are being stressed as tensions mount between the countries that lack competitiveness or fiscal discipline and the countries that have supplied billions of euros to prevent default and help stimulate recovery. While preventing immediate sovereign defaults, the longer-term success of rescue plans has yet to be determined.



Christopher M. O'Daniel

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UK

The UK continues to experience good economic growth for the fourth consecutive quarter after the recession. Of note were gains in construction, business services and finance. Most expect this pace to remain.

Inflation in the UK bears monitoring. Actual inflation of 2.6% is running ahead of the Bank of England's 2% target for the Consumer Price Index (CPI). An upcoming increase in the value-added tax in 2011 may further increase inflation while serving to dampen disposable incomes and limit consumer spending.



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