Regional
Specialists
Review

November 2011

HAMILTON
CAPITAL MANAGEMENT

WorldView

Overview: *Although it's too early to take a victory lap, talk of a double-dip recession has faded. So, too, have the usual pundits of doom, whose messages have lost their traction and marketing value.*

As we array the numerous U.S. economic indicators on a spectrum of negative on the left to positive on the right, the center of gravity is clearly right-of-center, suggesting moderate growth. More importantly, many key causal factors (interest rates, the U.S. dollar and commodity prices) are favoring growth. Even politics in Europe and possibly in the U.S. could be described as supportive, if awkwardly so. But several hurdles still exist, and volatility is likely to remain with us.

Tony Caxide, CFA®
Chief Investment Officer

North America

The first release for U.S. growth in the third quarter was above expectations, and revisions could take it higher as the latest trade data was robust. Earnings remain strong, interest rates low, a weak trade-weighted U.S. dollar favors our exporters, and commodity prices are falling – akin to an interest rate cut.

Further, unbeknownst to most, the government-vs.-private sector revolution started some time ago, and the score to date is lopsided. Since early 2010, the U.S. economy added nearly 2.2 million **private-sector** jobs, net of losses. What was the equivalent for **government** jobs? A net loss of over 500,000. But now we need our political leadership to come up with a fiscal solution that generates a genuine, long-term reduction in deficits and structural reform which also generates constructive, near-term stimulus. The jury's still out on that one.

Jeff Wilkins, MBA
Director, Portfolio Mgmt.

Asia

Despite a promising rebound in many economic fundamentals (leading to 6% annualized economic growth in the third quarter), Japan's macroeconomic outlook does not offer great hope that the recent recovery is sustainable. Many of the economic fundamentals, such as machine orders, industrial production, and retail sales, have lagged materially from their recent run.

Unfortunately, leading indicators and headwinds, such as the stubbornly strong yen, the European debt crisis, and a slowing China, offer reason to believe that strong growth will be increasingly difficult to achieve, even with significant government-funded reconstruction activity. Reasonably bright spots include some export growth and the improving employment picture.

WorldView

Europe

Sovereign debt problems remain the focal point for Europe. A temporary solution for Greece seems to have emerged, but the real concern lies with contagion across Europe and beyond. Bond investors' punishing avoidance of several markets has caused governments to fall in Greece and Italy, and has even shifted to France, driving its rates (and borrowing costs) higher.

The initial third-quarter economic growth of 0.8% annualized matched the previous quarter, but fell well below the U.S.' +2.5%. Several indicators suggest that the euro-zone may experience negative growth in GDP soon. The outlook continues to be clouded and valuations aren't attractive enough to entice us into making a contrarian investment as of yet.

Eric Shisler, CFA®
VP, Portfolio Management

UK

The UK economy grew at a 2% annualized rate in the third quarter – above the 0.4% gain in the prior quarter, but still moderate.

The UK is undergoing a period of transition in the wake of the global recession. Interest rates are low, but consumer borrowing for mortgages has not returned to previous levels. Owing to an increase in value-added taxes and a rise in import prices, inflation has been high. Additionally, wage gains have been lackluster, unemployment has risen, and personal consumption has fallen precipitously. These results suggest a slow and uneven recovery.

It's anticipated that the coalition government won't waver from the austerity plan announced in 2010. Thus, fiscal policy should remain yet another restraint on economic prospects.

Chris O'Daniel, CTP, CFA®
Director, Portfolio Mgmt.

Emerging Nations

We are observing an about-face in the policy stance of emerging markets. Whereas until recently most were raising interest rates to slow down dangerously booming conditions and rapid inflation, we're now seeing the beginning of a trend toward easier monetary conditions as strong currencies and rising wages in emerging nations, along with a shaken developed world, reduce growth in places like China and Brazil.

At some point this could re-ignite our interest in these markets. At this point, however, our earnings modeling suggests it remains too early.

Tony Caxide, CFA®
Chief Investment Officer

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The largest investors often have the benefit of sophisticated internal investment departments led by a qualified Chief Investment Officer to design and manage their investment portfolios.

Unfortunately, most investors can't maintain an internal team of that caliber. But if having an external investment team of that sophistication is something you could gain from, then we're here to serve.

We function in a fiduciary capacity as an external Chief Investment Officer for our clients. Our structure is similar to the investment departments of large, sophisticated institutional investors, and our team has extensive global investment experience. In fact, several of our team members have received national recognition for their abilities and accomplishments.

Each day, we diligently apply our disciplined investment process to the design and continuous, forward-looking supervision of your portfolio. Our goal: To build a complete investment solution for you.

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