# 2009 Investing Outlook

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**Special Interest Articles**



**Individual Highlights**

It's tempting to stay on the sidelines of a turbulent stock market, but you should take advantage of today's rock-bottom prices.

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## 2009 by Region – Global and US

**Global:** The world economy is currently in its worst recession for decades. We expect the weakness to continue over the coming quarters but for a modest recovery to begin in the middle of 2009. The US should be the first to recover followed by Asia, whereas Europe will be the laggard.

**US:** The economy will remain in recession through Q1 but the contraction will be milder than the exceptionally sharp drop in activity seen in 2008. A fiscal boost is in the cards, which combined with a super boost to real incomes from declining energy prices, will help a recovery get under way. The recovery will nevertheless be relatively moderate by historical standards as the deleveraging in the financial sector, declining home prices and unemployment will continue to weigh on growth through 2009. We do not expect unemployment to stabilize before early 2010, topping at 8.6%. Both headline and core inflation are past their cycle peaks and risks of deflation are rising but remain very limited due to an aggressive policy response. We expect the Fed to keep the Fed funds rate at close to zero in 2009. That could include further purchase of mortgage-backed securities, private sector credit instruments and longer-term treasury bonds.

## 2009 – Europe and Japan

**Europe:** The economy has slipped into a deep recession which will last until at least mid-2009. Tighter financial conditions and greater uncertainty are reducing demand in both the domestic economy and on export markets. By spring/early summer 2009, the worst should be over as demand should be stimulated by a rapid decline in inflation and a pick-up in the US economy. Furthermore, automatic stabilizers and discretionary fiscal policy responses - although many details remain to be revealed - should stimulate demand. The recovery is expected to be slow and gradual and growth will be below potential way into 2010. Much depends on how the financial crisis unfolds and risks to growth are primarily on the downside. We expect pressure to mount on the ECB (European Central Bank) to cut rates during the first few months of 2009 and even though the ECB believes that going below 2% would be painful, we think the weak economy will force it to cut the refinance rate to 1.5%.

**Japan:** The economy has contracted sharply in 08 on the back of weak exports and corporate investments. We expect fiscal easing and lower inflation to prevent the economy from contracting further in the 1st half of 09. However, the economy will barely grow in early 09 and there is mainly downside risk to our forecast in early 2009. In late 09 the economy should start to improve as the global economy gradually starts to recover. Deflation fears could re-emerge as both headline and core inflation will return into negative territory in 2009.

*Whether you're building a portfolio or rebuilding an old one, the tried-and-true lessons still apply: Balance risks against each other while relying on equities to build wealth. If you have become increasingly defensive over the past year -- and most people have -- now is the time to reverse the process.*

# 2009 – Emerging Markets

**Emerging Markets:** The growth outlook for Emerging Markets worsened during 2008, and standing in 2009 most countries in the Emerging Markets face a couple of quarters with negative growth as global deleveraging continues to put a dampener on Emerging Markets. Central & Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) are downbeat on the growth outlook, as these regions are the ones where imbalances have grown the most and the need for increased savings and reduced spending are the highest - overall we expect zero at best in these regions. Latin American economies suffer from lower commodity prices and slumping US growth, while Asia should get a boost from lower commodity prices. In 09, Asian growth will slow significantly as production suffers from lower exports. During 2nd half 2009, there should be a reasonable chance of a rebound. Good news for Emerging Markets is that inflation falls rapidly, which should open the door for more aggressive monetary easing, but also weaker currencies - mostly in CEE/CIS.

# Investment Spotlight - Corp Bonds

**Corporate Bonds:** Fixed-income debt instruments used to fund acquisitions or raise cash—have taken a beating in the market, but the good news is that because lending has dried up for many companies, bonds have become more attractive.

They pay well, too. Spreads on corporate bonds have been averaging anywhere from 6% to 8% for high-quality companies, significantly better than Treasuries, which have 0% yields these days. Companies have continued to issue bonds even through the normally dead holiday season, which gives some experts hope.

Bonds are often a part of most portfolios, but focusing extensively on debt is not something most small investors should do, preferring to invest in stocks. However, that may change, as some analysts think when the corporate bond market normalizes, it will be a huge indicator credit markets will have improved.

However, for many investors, corporate bonds, which are sold in $1,000 increments, are out of reach. You would need thousands to effectively diversify your bond portfolio enough to hedge risk. After all, you wouldn't want to snap up $9,000 in General Motors (GM) bonds, just to learn the company is going belly up (though it seems the feds won't let that happen).

That's where mutual funds and unit investment trusts come in. Such funds often purchase anywhere from 20 to 30 corporate bonds, and manage them for a fee to keep returns high and dump bonds that look risky. You may be unaware of UITs, which are considered to be a hybrid of an actively managed fund and a portfolio of individual bonds.