

## Market Outlook: Window of Opportunity

by: **Daniel Zurbrügg**

December 11, 2008



When analyzing macroeconomics, we at Alpine always regard the world economy and the world of finance as one system, with the various regions and markets being an integral part of it. The correlation of global financial markets is, as we know, very high with various regional economies somewhat less directly linked in terms of real economics. It is a constant system of changing dynamics, where one development influences another.

Therefore, making predictions on one market or one investment should always be a process of carefully analyzing the driving forces behind a price development. Not looking at something in a broader context means running the risk of being terribly wrong in the long run. We need to know where we are today and in which direction we are going in coming months. It is much like sitting in a dark room at night looking out of the windows and wondering when and where the sun will rise. The time of sunrise is yet unknown, but it will happen and when dawn comes, we are starting to see real value through the windows of opportunity. This is the beginning of the next cycle. These cycles are a natural part of our economy, of investing and in fact our lives.

Today, the economic picture is not always pretty as we are really sitting in a very dark room at the moment. Markets have sold off dramatically in recent months and global economic growth will fall significantly, resulting in a rather deep recession for most developed countries. We should be prepared for a series of very, very weak economic data in the coming weeks. Unemployment will probably hit 8% in the U.S and also spike up significantly in Europe. GDP growth in developed countries could temporarily drop by 3% to 4%. Now we are getting the macroeconomic proof of what the market has been saying for months.

However, we will get through this for sure, the sun will rise again. We are about to solve this problem and unfortunately it takes unpopular measures to get us back on track and it will also take some refinements to the global financial system. We are learning and we continue to make mistakes as no historic situation is exactly the same as the one before. I am of the opinion that we have handled the situation quite well, considering the circumstances.

Don't get me wrong, I don't like bail-out packages and TARP plans. I don't like all these stimulus packages that governments around the world have to put in place, but I think it is amazing how quickly the world, in a coordinated effort, has reacted to the crisis. We can't change the mistakes of the past anymore and we shouldn't blame the Bernankes and Paulsons of this world today for trying to fix what was broken many years ago.

In the short-run, these stimulus measures are necessary but they need to go hand-in-hand with a long-term restructuring of the global financial and economic system. This is exactly what is taking place right now and hopefully this will result in changes that make sense allowing the invisible hand of economics to do its job. Restructuring should not happen in times of crisis, change should happen daily. Let the economy develop freely and contract once in a while, let the economy follow its natural cycle. We have become chronically worried about even mild economic downturns, but this is just what we need once in a while.

Today's measures taken by governments around the world are nothing new in terms of economics. The concept of government support and economic stimulus has been introduced almost 100 years ago by the great economist John Maynard Keynes, who said that markets can be irrational for quite some time and they can stay irrational for longer than investors can stay solvent. That's exactly where the government should support the system, but only if we face a real crisis and not some minor economic downturn, the idea of an ever growing economy is an illusion and every measure which is trying to support eternal growth will result in the creation of bubbles as we have just recently witnessed.

Many investment experts, economists and market participants are against bailouts of financial institutions and companies and that we should not provide any stimulus to the system these days. I think this is a bit of an idealistic view of things and does not take into account the full scope of potential damage such a "no action" attitude would bring. The geopolitical and socio economical consequences could be really dangerous. I believe we have gone beyond the point of no return, in fact I believe we passed that point many years ago and there is just simply too much at stake. People hate to pay money for bank bailouts, even though they realize how important a healthy banking system is for the well-being of the whole nation and in fact for the whole world. After the bailout deals and emergency lending we move now to the next phase of the rescue operation and that is to provide economic stimulus.

The latest program announced by the Obama administration is going in the right direction. The government and ultimately people will have to pay for this stimulus but at least they are getting some real value in return because a lot of this money is spent on infrastructure spending, an area where the U.S. has to catch up anyways. Did you know for example that the electricity grid in the U.S. is by far the oldest in the Western world?

Investors are worried about the real impact of all these stimulus packages put in place globally and argue about the eventual effects on the global economy. Although we might still be sometime away until the effects are felt, we have no doubt that these measures will make a significant contribution towards a global economic recovery and therefore gradually ease the pressure on the financial system. We see global equity markets bottoming out in the course of Q1 and recovering thereafter. Economic momentum will only show signs of improvement in the course of Q2, with a return to some moderate growth in 2010. This return to economic growth is

eventually going to be accompanied by increasing inflation, with the potential for some concern in this regard.

In such an environment, we propose to hold investments in stocks (especially energy, materials and industrial companies), commodities and gold, positions that we would gradually build up in the coming weeks. At the same time we are looking to lower the exposures to government bonds, where we feel the peak of prices is near. The current market environment therefore offers a lot of opportunities, especially for investors looking to diversify globally.

The decisions made in challenging times like this will determine future investment success.