



STRATEGY UPDATE

Last week Alcoa Aluminum kicked off the First Quarter earnings season. While the big metal company reported a healthy profit and beat most analysts' estimates, revenues were disappointing and the stock tumbled after the news release. Meanwhile, earnings reports from other companies were overall mixed with JP Morgan reporting a positive surprise and Google disappointing. Even though most economists generally agree that the global economic recovery is on track, the rate of growth has slowed recently. Rising oil prices, the earthquakes in Japan and renewed geopolitical tensions in the Middle East have conspired to broadly reduce global macroeconomic growth projections for the first half of 2011.

While equity markets struggled with choppy earnings news last week, bond markets rallied as investors rotated back to the perceived safety of US Treasury securities. Most bond indices finished up on the week as the yield on the ten-year note fell 16 basis points closing the week at a yield of 3.41%. Longer-dated Treasuries however ceded some ground today as S&P placed the United States on a 'negative' outlook status. The rating agency cited the US's need for fiscal consolidation and meaningful progress towards reduction of its massive budget deficit. The report was not all bad reading however as S&P did reaffirm the United States rating at the highest, AAA level: 'The economy of the U.S. is flexible and highly diversified, the country's effective monetary policies have supported output growth while containing inflationary pressures, and a consistent global preference for the U.S. dollar over all other currencies gives the country unique external liquidity'.

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In Asia, markets fell over the week as China's central bank raised the amount of money that banks must hold in reserve by 50 basis points to 20.5%. The latest policy increase marks the tenth rise since the beginning of 2010 and the fourth hike this year as the world's second largest economy attempts to control rising inflation.

Strategy:

- Opportunistically move out the historically steep US yield curve using investment grade issues expected to hold value and tighten further to Treasuries as the economic recovery continues.
- Look to buy 'cushion paper', or higher coupon issues priced attractively to the call to generate income and as a defensive measure.
- Selectively buy municipal bond issues as rates remain historically attractive to Treasuries.
- Favor high quality, dividend paying equities to provide downside protection and to pick up additional total return.
- Many US multi-national companies are historically cheap, especially in comparison to domestic interest rates. Most multinationals are well positioned to benefit from the falling greenback through translation gains and increased competitiveness. Stay with dollar-cost averaging programs and buying dips.