Thomas White Global Investing

Economic Review

Americas

June, 2009

Thomas White International, Ltd.

Thomas White Global Investing

It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens…Global Citizens.

The Thomas White organization was founded 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

Economic Review

Americas: June 2009

In recent months, the large increases in government spending and the massive liquidity infusion by the major central banks have resulted in better than expected economic data from the major world economies. Asset price gains have been more pronounced in large emerging markets, where economic growth has been surprisingly resilient on the face of the sharp decline in global demand.

Higher long-term interest rates, in the form of rising U.S. treasury yields and other measures, partly reflect the improved economic sentiment while the steady decline in LIBOR rates confirm the continuing return to normalcy in the credit markets. Banks were stabilized and able to survive the worst of the credit crisis by the large capital infusion by governments. Many of them, especially in the U.S., have now raised private capital and are proposing the return of public funds. These measures have reinforced market confidence that the banking sector can raise enough resources to absorb potential increases in loan losses and other asset price declines, if the economy turns weak again.

On the downside, the prospect of increased government borrowing and inflationary expectations have contributed to rising treasury yields. Introducing higher long-term interest rates too early into the recovery may negate gains in other indicators and diminish economic growth. Most governments now face worsening fiscal deficits, and central banks will have to find a way to unwind the unprecendented policy measures which were required to manage the crisis. The appreciable recovery in commodity prices, especially oil, may also increase price levels and lead to a decline in consumer spending.

AT A GLANCE

United States: Despite the revival in some economic indicators, the weak employment market is forcing U.S. consumers to remain cautious and save more. Though some of the housing market indicators show signs of improvement, higher mortgage rates may cause more foreclosures and delay the recovery.

Canada: While the sentiment indicators show sustained improvement, real economic data remains mixed. Unemployment continues to rise and the currency appreciation is affecting the overseas competitiveness of Canadian exporters.

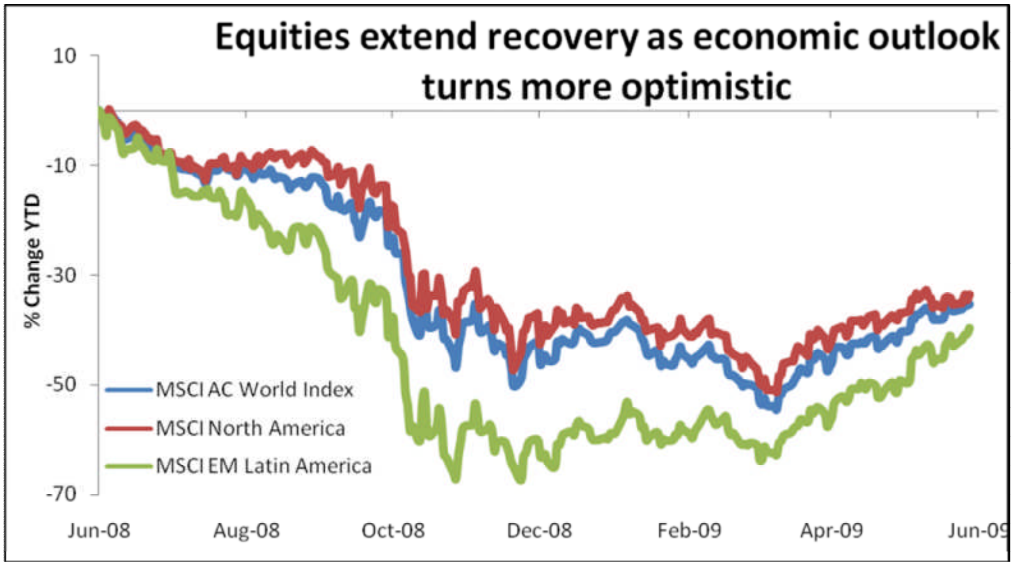
Brazil: The appreciable improvement in some of the economic indicators has recently attracted large capital inflows into Brazilian equities. The decline in economic output during the first quarter was less than expected, and the central bank cut interest rates yet again.

Mexico: The steep fall in first quarter GDP has worsened the outlook for Mexico. Lower demand in key foreign markets and the flu outbreak may cause a further decline in the economic activity. Lower inflation may help the central bank to cut its interest rate.

Chile: Despite the substantial interest rate cuts, domestic consumption remains weak and has caused the economy to underperform. Subdued demand for resources and other export products may worsen the outlook. Lower inflation may encourage the central bank to cut interest rates again.

Peru: Although there was a sharp slowdown in global demand, the Peruvian economy managed to expand during the first quarter. With better economic prospects than its neighbors, Peru has attracted more capital and the currency has appreciated.

Colombia: The recovery in oil prices will provide some support to the Colombian economy's prospects this year. Weak domestic demand and lower inflation prompted the central bank to cut the interest rate again last month.



United States: Consumers remain cautious even as the economic outlook improves further

The perceived improvement in economic outlook over the last few months has been significant enough to shift the focus from the durability of the recovery to managing inflationary risks as the recovery takes root. While some economic indicators have turned for the better, and others are on the mend, many challenges remain. The focus now is on revival of the ailing manufacturing and housing sectors, and the assurance of a meaningful and sustained recovery in consumer spending. At the same time, rising long-term treasury yields due to the improved economic climate, and higher expected government debt sales may slow down the recovery.

The Conference Board Consumer Confidence Index continued to trend higher in May and the University of Michigan Consumer Sentiment Index extended its gains to June as well. However, higher energy prices and rising unemployment may dent consumer sentiment in the coming months. Fuel prices have increased nearly 40% this year and the weak dollar is pushing up prices of other imported goods as well. The weak currency and higher oil prices may also reduce the contribution of net external trade to GDP, when compared to recent quarters.

Though the number of jobs lost continued to fall in May, the unemployment rate increased further to 9.4%. The better than expected monthly employment data, without any help from new jobs in the government sector, suggest that the labor market may be stabilizing after the steep job cuts in recent months. However, considerable overcapacity in the economy may likely force employers to delay hiring until demand picks up appreciably. This may cause the unemployment rate to increase further, as the Federal Reserve has forecasted, and dampen consumer spending.

The housing market is seeing signs of further improvement as sales of both existing and new home sales increased in April, though home prices continued to fall and housing starts declined. Part of these sales gains resulted from the entry of more first-time buyers, encouraged by lower home prices and tax cuts. However, rising long-term treasury yields will push up mortgage rates and may lead to a decline in refinancing activity and to more foreclosures. The increased supply of homes from these foreclosures may negate the effect of lower housing starts. This will lead to a further decline in prices, and delay the recovery.

Retail sales inched up moderately in May, after a fall in April, with most of the gains coming from higher fuel sales. This suggests that consumption is still constrained by the weak labor market and consumers are remaining cautious despite the improved readings in the confidence surveys. Though equity prices have recovered, weak home prices are contributing to a negative wealth effect. Besides, the continued economic uncertainties are encouraging consumers to save more, as reflected in the sustained increase in the savings rate.

Canada: Economic data remains mixed though sentiment surveys show improved confidence

While the consumer and business sentiment surveys continue to reflect increased optimism, signals from economic data releases are mixed. **Home sales, housing starts and building permits have trended higher in recent months, while home prices seem to be stabilizing.** These trends may be a result of low interest rates, which are also helping consumer durables and auto sales. Overall retail sales have shown improvement after the decline during the first quarter.

However, **unemployment rose to a decade high in May** as all of the previous month's job additions were erased. Manufacturing shed the most jobs, confirming the uncertain demand outlook despite the improvement in confidence indicators. **Exports declined unexpectedly in April, pushing**

the trade account to a deficit. Though automobile exports increased, shipment of other manufactured goods and energy products declined.

The steady appreciation of the Canadian dollar against the U.S. dollar is threatening the competitiveness of Canadian exporters, when global demand remains subdued. The Bank of Canada recently warned that currency gains could offset the recent upticks in other economic indicators and delay the process of economic recovery.

Meanwhile, **the Canadian economy declined 5.4% annualized during the first quarter of this year**, as the appreciable drop in export demand led to lower manufacturing activity. The government now estimates that its budget deficit for the current year will increase by 50%, limiting its ability to pursue further stimulus measures. Pointing to large excess capacity in the economy, capacity utilization fell to a record low during the quarter, which will dampen prices for a while. The Bank of Canada has confirmed that it will keep its lending rate at the current level for the rest of this year.

Brazil: First quarter decline less than expected as more economic signals turn for the better

For an economy which saw a sharp decline in output as the global downturn worsened during the previous two quarters, the turnaround in some of Brazil's leading economic indicators has been impressive**. Industrial activity continues to recover as credit growth has accelerated in recent months**. After the decline in April when the tax benefits on new purchases were withdrawn, car sales have picked up and suggest improving domestic consumption. Businesses have started hiring again after the record job losses of late last year and early this year. **Exports seem to have stabilized, though export volumes are still lower than last year**. Higher commodity prices should help exports, while imports will turn costlier due to the appreciating currency, widening the trade surplus.

The steady improvement in the economic outlook has attracted heavy investment flows into Brazil in recent months. **Foreign investment into Brazilian equities exceeded a record $3 billion during May**. The increased capital flows have pushed up the Brazilian real against other currencies. Since March of this year, when the equity market recovery started, the currency has appreciated nearly 25%. This may blunt export performance in coming months.

The Brazilian economy declined by a less than expected 1.8% annualized during the first quarter. As the annual inflation continued to slow in May, **Brazil's central bank lowered its benchmark interest rate by 100 basis points**. With the latest rate cut, the benchmark is now back in the single digits and should support domestic consumption and growth recovery. The economy is now expected to decline 0.7% this year, according to a survey by the central bank.

Mexico: Deep decline in first quarter output worsens current year economic outlook

Given its heavy reliance on the U.S. economy for exports and remittances by workers, it is no surprise that Mexico is the worst affected economy in the region in the current downturn. Even as hopes of a global economic recovery continue to rise, **the Mexican economy remains buffeted by weak demand conditions in its major markets**. The best example is the auto industry, where the U.S. accounts for more than two-thirds of Mexican exports. Though the pace of decline has slowed down, exports in May were nearly 45% lower than last year. As the rate of decline in domestic sales continues to accelerate, production dropped nearly 40%. The industry's waning fortunes have prompted the government to consider nearly $500 million in credit support to the auto-parts manufacturers.

Hence, **the 8.2% decline in Mexico's first quarter economic output was not unexpected**. The fall in industrial output has led to higher unemployment, which increased to 5.25% in April, affecting activity in the services sector as well. The effect of the Mexican government's stimulus programs has not been palpable so far, and the weak public finances will prevent the government from undertaking further fiscal measures. The recent swine flu outbreak has clouded the outlook even further, as tourist inflows are likely to remain affected. Forecasts for the current year's GDP have been lowered and the rate of decline is likely to be the worst in several decades.

Meanwhile, consumer prices slipped below 6% annualized in May, and may allow the central bank further leeway in bringing down the interest rate. The Bank of Mexico has been steadily easing its benchmark rate this year, including the 75 basis point cut last month. Following the rating outlook downgrade by credit rating agency S&P last month, Moody's, another major rating agency, said Mexico remains one of the most vulnerable economies in the region. As the economy recovers by next year, the World Bank and the IMF have warned of higher inflationary risks in Mexico as well.

Chile: Economy continues to decline as domestic consumption remains anemic

Chile's wider trade surplus for the month of May caused some consternation, instead of the optimism typically associated with a positive trade gap. **The nearly $1 billion surplus was the result of a steep fall in imports**, as domestic consumption continues to scale down. Import of consumer durables more than halved from a year ago as job losses persist. Exports, the mainstay of the Chilean economy, keep trending lower as global demand remains subdued for resources like copper. To make matters worse, the country's salmon farming industry is now struggling with problems like algae growth. Salmon output is expected to decline 40% this year from 2008, when exports of farmed fish from Chile fetched $2.3 billion. The country is the second largest exporter of farmed salmon after Norway.

Even with these weak trends, **the 4.6% decline in GDP from a year ago for the month of April was worse than expected**. The accelerated pace of the decline confirms that much of the headwinds faced by the Chilean economy during the first quarter remain.

As expected, **lower demand has pulled down consumer inflation to the central bank's target of 3% in May**. The Central Bank of Chile has pursued the most aggressive monetary policy among all economies in the region, bringing its key interest rate down by as much as 700 basis points so far this year. The bank's policy setting body is meeting again this month and another rate cut is widely anticipated.

Peru: Aggressive rate cuts continue as growth slows and inflation falls

The 1.8% economic growth achieved by Peru during the first quarter of this year should be seen in the context of depressed global demand for resources. While the pace of expansion is much slower than in previous years, it is still better than most of its neighbors, which witnessed a decline in their economies during the quarter. The government now expects GDP growth to be around 3.5%, making Peru one of the few Latin American economies likely to expand this year. Both equity and currency markets have taken note, pushing up equity prices and boosting the Peruvian sol.

The government has so far spent only less than half of its economic stimulus plan, leaving scope for further support to the economy in the coming quarters. As annual consumer inflation declined to 4.2% in May and is expected to trend lower later this year, the aggressive policy easing by the Central Reserve Bank of Peru is likely to continue. **The central bank cut interest rates yet again earlier this month, by a higher than expected 100 basis points**.

Colombia: Higher oil prices to provide relief as interest rate is lowered again

The more than 50% recovery in oil prices this year should provide some relief to the Colombian economy, where lower earnings from exports and remittances by overseas workers has led to lower domestic consumption. The economy likely declined during the first quarter, the second successive quarterly contraction, as foreign demand for goods and workers remained weak. However, hopes of an early global recovery have perked up energy and other resource prices. Though global oil consumption is still forecasted to decline from last year, the most recent demand estimate by the International Energy Agency (IEA) has been more optimistic. **Colombia is among the few oil exporters the IEA expects to increase output this year**.

However, as domestic consumption demand remains weak, **Banco de la Republica, Colombia's central bank, chose to cut the benchmark interest rate more than expected to 5% last month.** The nearly 3 percentage point fall in consumer inflation since the beginning of this year supported the central bank's decision. At the same time, the central bank said the possibility of a gradual recovery has increased, and hence the pace of monetary policy easing may come down later this year.

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