Investment Watch

3rd Quarter, 2009

G-20 Summit

The leaders of the most powerful nations in the world gathered in Pittsburgh last week at the G-20 Summit hosted by US President Obama. Although not formally announced, the G-20 has effectively replaced the G-8 group of developed countries as the appropriate forum for cooperation on global economic and financial matters now recognizing the importance of the emerging economies in the world order. This expansion includes the nations of Australia, Brazil, China, India, Mexico, and South Korea, as well as, the European Union.

President Obama concluded the Summit, *"Finally, we agreed to reform our system of global economic cooperation and governance. We can no longer meet the challenges of the 21st century economy with 20th century approaches. And that's why the G-20 will take the lead in building a new approach to cooperation. To make our institutions reflect the reality of our times, we will shift more responsibility to emerging economies within the International Monetary Fund, and give them a greater voice."*

Left to Right: German Chancellor Merkel, British Prime Minister Brown, US President Obama, ex-Chinese Finance Minister Renqing and Russian President Medvedev

Global integration has intertwined the economies of the world to the benefit of all. Here in the US it has kept inflation down by supplying cheap goods and the US consumer has reciprocated by being the unwavering market for developing countries' exports, providing work for their masses. However, this has created a global trade imbalance which is unsustainable into the future.

Therefore, the US developed the proposal, *"Framework for Sustainable and Balanced Growth"* which was presented at the G-20 Summit. Our leaders recognize the importance of world cooperation, as the actions of the G-20 over the next year may determine the fate of the world economy both now and for generations to come. We have been living in an unbalanced economic world and our leaders believe that balanced world integration is the only viable solution for sustainable growth.

The need for this cooperation became apparent with the near collapse of the US financial system, the epicenter of global commerce. Here at home, Federal Reserve Chairman, Ben Bernanke, unleashed a patchwork of unprecedented fiscal stimulus to avert disaster, but it became clear last October that a more coordinated global approach was required. Many of the G-20 nations stepped up to the plate. Behind our $850 billion stimulus plan, China's $585bn, the EU's $400bn and Japan's $275bn stimulus plan all were hoped to prevent a major recession. Although a global meltdown was averted, the world plunged into a deep recession, precipitating a nose-dive in equity markets and a continuing deflation in housing bubbles that led to a massive loss in household wealth, most severely in the developed world.

Many economists predict that we have survived the worst of the ***Great Recession.*** The US and global markets have signaled future growth which Ben Bernanke confirmed after a September 15th speech at the Brookings Institution, a Washington think tank, *"I've seen some agreement among the forecasting community at this point that we are in recovery...From a technical perspective, the recession is very likely over at this point."*

Technically the recession may be over, but we have a rising 9.7% unemployment rate, a stagnant housing market, and an economy that has relied on government stimulus and deficit spending to survive. So where do we go from here? Recoveries generally have taken the shape of the letters V, W and U. The "V" would be a rapid rebound, while the "W" depicts the dreaded double dip recession, and the "U" a prolonged slow recovery. After the 2001 recession, the American consumer was encouraged to and spent the world out of recession.

Now times are different and our leaders believe that because we have overspent at a rate of 6% of our GDP for years, the US consumer must stop spending and save! The consumer represents 70% of our GDP and if we stop spending our growth may be very slow. Therefore, we need the other countries who have trading excesses, such as, China, Russia, Germany and Japan, to export less by developing more internal domestic demand.

Our Fed says that *"...economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period"* which should keep mortgage rates low and prop up our housing market. At the same time, low rates will put downward pressure on the dollar which may help our exports. With the decline in personal wealth, the tapped-out US consumer cannot lead the world out of this recession. The world needs the emerging economies of the G-20 to encourage internal domestic demand and open their markets to the US and other developed countries to jump-start *Sustainable and Balanced Growth*.

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