

# Asset Allocation Views

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<sup>1</sup>The Ifo Business Climate Index is based on ca. 7,000 monthly survey responses of German firms in manufacturing, construction, wholesaling and retailing. The firms are asked to give their assessments of the current business situation and their expectations for the next six months. The business climate is a transformed mean of the balances of the business situation and the expectations. It is not possible to invest in an index.

<sup>2</sup>Shoko Chukin Bank's index of business confidence surveys 1,000 small and midsize Japanese companies each month. An index value over 50 indicates that most businesses believe conditions are improving, and a value under 50 indicates that most businesses believe conditions are deteriorating. It is not possible to invest in an index.

- In recent weeks many forecasters, including ourselves, have marked down their forecasts for GDP growth for this quarter and 2009. Our base forecast is for real GDP in the United States to decline by 5% this quarter and an additional 2% in 1Q 2009 before the lagged impact of fiscal and monetary stimulus results in a recovery beginning in 2Q 2009.
- The decline in economic activity is global. The plunge in Germany's Ifo Business Climate Index<sup>1</sup> of business confidence and Japan's Shoko Chukin Bank index of small business confidence,<sup>2</sup> along with sharp declines of industrial production, point to a sharp contraction in economic activity in Europe and Japan that could last several quarters.
- The challenge to policymakers around the world is to break the cycle by which tighter credit conditions result in an economic contraction, which leads in turn to further losses and tightening in the financial system. In our view, massive fiscal stimulus packages and central bank easing eventually will break that loop, but that has not occurred yet.
- While it appears that this recession may be the most severe since the 1981-82 recession, many of the extreme market movements in October and November reflect de-leveraging by hedge funds and other investors, in our view, rather than an exceptionally pessimistic assessment of the outlook for the global economy.
- On October 14 we moved from our neutral position in all asset classes to overweight large-cap U.S. stocks modestly and underweight fixed income. We put on this tactical position in an attempt to catch the bounce that often occurs after periods of hysterical selling in the markets. The 19% rise in the S&P 500 after it hit a low for the year on November 20 may have been that bounce.
- It is worth remembering that the stock market often retests its lows again before a bear market rally turns into a bull market.

## Current Positions

	Benchmark (%)	Recommended Allocation (%)	Change from Last Move
<b>Stocks</b>	65.0	70.0 Overweight	Unchanged
<b>Bonds</b>	35.0	30.0 Underweight	Unchanged
<b>Cash</b>	0.0	0.0 Neutral	Unchanged

## Allocation among stocks

Domestic stocks				
Large-cap core stocks	18.0	23.0 Overweight	Unchanged	
Large-cap growth stocks	13.5	13.5 Neutral	Unchanged	
Large-cap value stocks	13.5	13.5 Neutral	Unchanged	
Mid-cap stocks	4.0	4.0 Neutral	Unchanged	
Small-cap stocks	6.0	6.0 Neutral	Unchanged	
International Stocks				
EAFE stocks	10.0	10.0 Neutral	Unchanged	
<b>Total stocks</b>	<b>65.0</b>	<b>70.0</b>		