



## Overview

The dominant theme from our analysis this month showed that while there is continuing growth in world economies, the rate of growth has peaked or is in decline. This may suggest that we are in the “slow patch” that many economists are suggesting, or more ominously, a return to negative economic numbers. At this point, the answer is not definitive, and thus we remain cautiously optimistic while keeping a very close watch on various economic statistics to assess whether we should be more pessimistic.

## Economies

Industrial production in the major developed nations has fallen to about half the rate of growth we were experiencing only six months ago. The two exceptions are Japan, where the numbers are negative; and Canada, where growth remains constant to stronger (although it should be noted Canada has not experienced the swings of growth of other countries).

As a backdrop to all world economies the effect of the Tsunami in Japan and its aftermath must be kept in mind. The events in Japan have had a negative impact on first half numbers, but could be a positive in second half if there is a rebound in that country. Another major world-wide driver of growth has been the Chinese economy. While still strong, the rate of change in industrial production has flattened and the Chinese government is taking steps to rein in growth in an effort to control inflation. This could well have a dampening effect on global growth.

## Inflation

For the most part, global CPI remains contained, but our work shows a definitive turn upward in most countries. A continuation of higher numbers would be negative to our outlook. Higher inflation would raise interest rates, slowing growth and could prompt a government response to check the economy.

## Interest Rates & Money Supply

Central bankers have kept the money supply pumped up and interest rates low in a continuing effort to support the economy. Whether this will prove to be a long term benefit is open to debate, in the meantime these measures have been, and continue to be, very positive for all financial markets.

## Commodities and Currencies

Almost all commodities are in very positive trends, spurred on by demand and a weaker US dollar. This outlook would change if (as mentioned above) economic growth were to become more negative and the US dollar were to continue to strengthen. For our part we see the US dollar indicating such strength, which would suggest, but not require, a more negative outlook for commodities and the economy.

## Summary

We remain positive on financial markets, but with increased unease and skepticism as economic rates of growth slow. In addition, “black swan” events, such as a default of a European sovereign nation, continue to keep us very vigilant.