COMMENTARY

May 1st , 2009

Dear clients and colleagues,

The markets continued their recovery in April with the best monthly performance since 1991. In fact, the rally that started in March has been the biggest since 1938.

Earnings season is now coming to a close. Companies reported generally weak results and many have not issued an outlook for the rest of the year given the uncertainty. However, the market is looking ahead and although economic indicators have continued to deteriorate, they are showing signs of a bottoming.

In our opinion, the real test will be Q3, as we will have a better idea of the impact of the various stimulus programs and if a sustained recovery is near.

So far this year, the sectors that were the worse since the beginning of the financial crisis were those that rebounded the most. Namely, the financials and the materials sectors.

We are not convinced that it is time yet to blindly buy the financial sector, particularly the Banks. Most regional banks reported worse than expected results, driven by increasing loan reserves. The sector ignored the bankruptcy of number two US mall owner, General Growth Properties Inc. But the commercial real-estate downturn will likely hurt the banks, especially regional ones for months to come. Although we remain cautious about the sector, we recently added an Australian Bank, Bank Queensland to our portfolio.

Dominating the news in the last few days has been the outbreak of swine flu. We thought it would be interesting to dig back on the impact of SARS in 2003.

Impact of SARS

Background

The SARS outbreak officially started in Nov 2002 in China, reached public spotlight in Feb 2003, and ended in Jul 2003. WHO reported 8096 affected cases in nearly 30 countries, including 774 deaths at a case fatality ratio of 9.6%. Over 80% of the deaths occurred in mainland China and HK.

Most affected countries were mainland China, HK, Taiwan, and Singapore.

Economic impact of SARS

The SARS outbreak caused substantial economic losses, but mostly confined to Asia Pacific region.

According to the Asian Development Bank, the cost of SARS in the East and Southeast Asia was about $18 billion or 0.6% of 2003 GDP. Both Singapore and HK slipped into recession in 2003. HK's economy shrank 2.6% and Singapore's by 2% in the first half of 2003.

Most affected sectors were tourism, transportation (particularly airlines), and retailing, due to loss in inbound traffic, reduced consumer spending, and caution in business investment.

- Tourism revenue in affected Asian countries lost nearly $15B or 0.5% of GDP.
- Tourist arrivals dropped 20%-70% in April 2003 in the most affected economies, while others in Asia also saw declines of 15-35%.
- Retail sales in affected Asian countries were down 5%-10% in early 2003.

Markets reaction to SARS

The SARS outbreak gave a temporary shock to the broad stock markets, but it was the Asian markets that were under bigger and longer pressure. US and European markets bottomed after a month, and Asian markets 3 months. Here are a few turning points.

- Feb 26 2003: SARS first came into public spotlight. The global market started to fall a few days later.
- Mar 12, 2003: WHO issued a global alert. US (e.g. SPX) and European market (e.g. SX5E) began to recover after dropping 2.8% and 10.2% respectively since Feb 26. HK and other Asian markets continued to fall due to continuing Sars spread in the region.
- Apr 28, 2003: WHO removed Vietnam from the list of SARS affected areas, making it the first country to contain SARS successfully. Asian markets started a long run uptrend till late 2007. From Feb 26 to Apr 25 2003, HK market lost 7.8%, Singapore 7%, and Shanghai 1.7%.

Jun 23, 2003: WHO removed HK from the list of SARS affected areas. HK airline, hotel and retail industries started to outperform HSI.

2003 market performance: HK 34%, Singapore 33%, Shanghai 10%, SPX 22%, SX5E 9%.

As we close this week, we would like to mention that Jones Lang Lasalle (NYSE: JLL), one of our biggest holdings has been named to The Ethisphere Institute's World's Most Ethical Companies list for 2009. The list recognizes 99 companies from around the world in 35 different industries for their commitment to ethical business practices. Jones Lang LaSalle has been named to the list for the second year in a row and is the only firm from the real estate industry to be included.

In the portfolio, we continue to maintain good sector diversification and focus on stock picking. In the near term, we continue to overweight healthcare, industrials, and consumer sectors, and underweight the financial sector. As we mentioned we think that the problems related to commercial loans and commercial real estate will aggravate in the coming months and that the Banks are not sufficiently provisioned. In addition, consumer credit should continue to deteriorate as well especially with the rising unemployment figures.

Have a good week.

The Global Alpha team