

January 2010

## The 2010 Outlook

As the year kicks off, I'd like to provide some aspects of our outlook for 2010. While some expectations are more apparent, others will come as complete surprises. Whatever the case, we expect all of these to be factors in investment strategy if they begin to unfold as follows:

- 1) Mortgage rates sky rocket from less than 5 percent today to more than 7 percent as the Fed moves away from buying mortgage-backed securities. While disruptive in the short term, the rise proves to be constructive as it demonstrates at what rate the private market is willing to lend to those seeking mortgages. Longer-term Treasury rates get blown out as investors balk at getting paid so little to sit on 30-year paper. Expect 30 year Treasury rates to hit 6 percent, up from 4.6% today.
- 2) The programs implemented to aid banks during the recession are gradually removed and the Fed increases interest rates. Both circumstances dramatically increase bank borrowing costs and banks start lending to consumers and businesses again as they are forced to find new places for return outside of buying longer-dated Treasuries.
- 3) Global GDP growth comes in around 4.5 percent, well ahead of the 3.1 percent expectation. The Netherlands, Australia, Belgium, Brazil, South Africa and countries dependent on exports outperform.
- 4) The net interest cost for Treasury debt doubles and the U.S. is downgraded by the rating agencies. Because of the difficulty the Treasury has funding itself, new debt instruments that pay interest in relationship to economic growth become a vital revenue source for the Treasury.
- 5) Revelations from Henry Paulson's upcoming book and an audit by the Congressional Budget Office shed light on the extent to which the Fed utilized its seemingly unlimited power to thwart the Great Recession. In reaction, Congress clamps massive restraints on the Fed and, despite being named *The Times* person of the year in 2009, Ben Bernanke resigns out of frustration.
- 6) Following the lead of New York, multiple states reduce payments of principle on debt that matures during the year. Fiscal budgets become the political issue and Republicans make substantial gains in both state and national governments.
- 7) The U.S. government collects the highest level of tax ever as the ability to convert traditional IRA's to Roth IRA's as well as new taxes on buying and selling stocks generate huge tax revenues for the IRS. The Obama administration painstakingly recognizes the need to reduce the deficit and begins the process of paying off U.S. creditors.
- 8) Risk becomes a factor again in 2010. Credit once again rears its head and several countries are unable to roll their debt. Those countries not able to print their own currency struggle.
- 9) The green movement takes full effect as creative concepts, government subsidies and technological enhancement combine to produce a few cost equivalent alternatives to fossil fuels. The U.S. imports less oil and the growth of the trade deficit slows.

Best wishes to everyone out there this year and as always, I appreciate your continued trust and confidence.

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