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# **Currencies: Trends & Implications in a Changing World**

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Please read important risk disclosure and Fund related information towards the end of this presentation.



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# Global Imbalances

- **U.S.**
  - Unsustainable twin deficits
  - Cheap credit / leverage
  - Global overconsumption
- **Asia**
  - Interest in employment
  - Global overproduction
  - Massive surplus / foreign reserves
- **Corporate America**
  - Margins squeezed
  - Accelerated outsourcing
  - Lackluster job & real wage growth



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# Credit Crisis

- **Credit Expansion**
  - Fed fosters credit expansion
  - Fed ineffective / less relevant
  - False sense of security / low volatility
- **Credit Contraction**
  - Rise in volatility / Risk priced back into markets
  - Paring down of leverage: price deflation
  - Crises when de-leveraging is not possible



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## **Recent Developments**

- **Green Shoots???**
  - Reversal of risk aversion trades
  - Hard facts vs. arbitrary forecasts
  - Significant headwinds remain
- **Expanded role of Fed**
  - Fiscal vs. monetary policy
  - Independence compromised
- **Inflation**
  - Expectations are key



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# Unintended Consequences

- **Sowing Seeds for next Crisis?**
- **Market Interventions**
  - Rewarding bad business at expense of good
  - Crowding out effects
  - Overvalued government debt / Foreign demand may wane
- **Government Finances**
  - Safe haven status under increasing pressure
- **Fed**
  - Hamstrung to rein in inflation



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## **Why Currencies?**

- **Key attributes**
  - Size and liquidity
  - Many non-profit seekers
  - Low correlation with stocks and bonds
- **Investing**
  - Does not require leverage
  - Trends in institutional hedging
- **Basket approach**



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**U.S. / Europe**

- **USD**
  - Pendulum swings away
- **European Central Bank (ECB)**
  - Much more conservative intervention
  - Consumers less leveraged
  - Lower inflationary pressures
- **Norway the new Switzerland?**



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## Currency Implications

- **Australia / New Zealand**
  - commodity dependent, trade deficit, carry trade
- **Canada**
  - commodities, fiscally sound, yet exposure to U.S.
- **Gold**
  - sound money, inflation concerns
- **Yen**
  - “panic currency”, carry trade breakdown





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## **...Currency Implications**

- **Asia**
  - Foster financial services expansion
- **China**
  - Surplus, infrastructure spend, value chain
- **India**
  - Highly skilled / educated workforce, infrastructure



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