HUSIC CAPITAL MANAGEMENT

INVESTMENT OUTLOOK Q1 2009

Strong 2009 Stock Market Returns in Emerging Markets Point To a “V-shaped” Recovery

Following the “100-year flood” market selloff in 2008, it has been difficult for many to believe that the markets would ever rally again. Though the U.S. markets made another low in March, the internals were much improved from the October and November lows, setting the market up for the recent dramatic rally. It is noteworthy that this upturn was led by the emerging markets. Of the four BRICs (Brazil, Russia, India and China) all but India had bottomed by January. India bottomed in March. As you can see in the chart, strong double-digit year-to-date returns in these markets confirm the recent strength and indicate the crisis may be ending.

Exchange	Percent Change YTD*	Exchange	Percent Change YTD*
Russian MICEX Index	63.30	BSE Sensex 30 Index	25.60
Taiwan TAIEX Index	43.16	Venezuela Index	24.99
Shanghai SE Composite Index	42.65	Korea Kospi Index	24.60
Argentina Merval Index	34.53	Norway OBX Stock Index	23.40
Brazil Bovespa Stock Index	34.12	Hang Seng Index	19.67

**Through May 7, 2009. Source: Bloomberg.*

We believe a V-shaped recovery is likely. Most are looking for a U- or L-shaped recovery. U-shaped recoveries are usually shallower in nature and take longer to complete. L-shaped “recoveries” produce little to no actual recovery – Japan is an example. Clearly the economy faces challenges that will take years to work out. That being said, over 90% of our workforce is still employed. When the economy falls off a cliff, difficult decisions are made much faster. Thus a deeper decline results in a steeper recovery.

For example, in a shallow recession home sellers hold their properties off the market hoping for an improvement in price and activity. This prolongs the recession. The current downturn has been so fast and severe that sellers were forced to mark down the price to move the merchandise. Thus the time taken to complete the process was compressed. Similarly in the auto market, cars sales plummeted to half their previous volume, and now the market is correcting and pent up demand will soon reemerge. Companies have rapidly cut costs – both labor and capacity – thereby resetting their base to prepare for the recovery.

The strongest argument for a V-shaped recovery is that the response to this crisis has been massive. As discussed in previous installments of *Outlook*, the authorities and central banks around the world are responding in a coordinated way to employ any and all fiscal and monetary tools to reverse the recession and reignite growth.

Stimulus programs in emerging markets are swiftly gaining traction, especially in China where the package included coupons for citizens to purchase appliances (rather than cash that may be tucked into a mattress). This launched demand for flat panel televisions and washing machines and the basic materials needed to produce them.

China’s industrial output rose 8.3% in March – more than twice the 3.8% growth of the prior two months. Power consumption only fell 2% in March versus a 5.2% decline in the first two months. First quarter GDP of 6.1%, though low by Chinese standards, remains the envy of the world. For the fourth consecutive month, their Purchasing Managers’ Index (PMI), a measure of manufacturing activity, increased. Now over 50, this indicates expansion.

The Death of the Consumer is Greatly Exaggerated

We have developed a new theme called T*he Death of the Consumer is Greatly Exaggerated*. Consumer spending makes up two-thirds of the economy; consumers are early respondents to improvements in economic growth. The theme’s objective is to identify companies that will benefit from a recovery in consumer spending. Evidence is already surfacing. Despite the 6.1% contraction of U.S. GDP in the first quarter of 2009, private consumption increased 2.2%, after an annualized 4% decline in both the third and fourth quarters of 2008.

During the second half of 2008, the Bush administration scared even healthy consumers from spending as they sold Congress on the need for the Troubled Assets Relief Program (TARP) program. Now we are seeing an ebb to this mentality as consumer confidence improves. After two quarters of panic-driven inventory destocking, it appears the V-shaped recovery is beginning.

The government has focused on stabilizing housing in order to help stabilize the economy. Housing-related stocks peaked in the middle of 2005 and then collapsed. Now we are starting to see evidence of improvement in the business. Transaction volumes have turned up in part due to lower prices. Housing is currently more affordable than it has been in years.

The government has gone so far as to purchase government debt which drives interest rates lower for consumers. The goal is to stimulate demand with fixed rate mortgages below 5%. Tax credits are also being offered to incentivize first time home purchases. Housing-related stocks include **Toll Brothers (TOL), Pulte Homes (PHM)** and **Home Depot (HD)** among others.

The consumers' buyer strike has resulted in retailers suffering through a very difficult period which will take time to mend. Lower interest rates and gasoline prices are putting more discretionary dollars in consumers' pockets. Retailers that may benefit include **Sears Holdings (SHLD), Target (TGT), J.C. Penney (JCP)** and **Autozone (AZO)** among others**.**

Outlook

The market rally continues and it is broadening, which we view to be positive. The latest rally has been the strongest since 1938. March's three days of more than 10-to-1 positive breadth is reminiscent of the outstanding breadth at the start of the great bull market in 1982.

There have been six stock market panics (a decline of at least 40%) since 1900. In four of the six panics, the market decline was completely recovered within 18 months, and in 1937 the market rallied 75% in 12 months..

The steeply sloped interest rate yield curve will enable the banks to earn their way back to profitability. As they do this, the taxpayer bills for the TARP will be reduced. Stabilizing the health of financial players will restore confidence and set the stage to drive global economic growth.

Evidence of continued thawing in credit markets includes improvements in capital raises through new issues of equity, debt and convertibles securities. Mergers and Acquisitions (M&A) activity has also picked up and is broad based, across sectors such as technology, health care and consumer discretionary.

Earnings season is in full swing and thus far the market's response has been more correlated to bull markets than bear markets. In bull markets, investors review company earnings and outlooks and hold or add to their positions. In bear markets, investors sell shares during earnings season. We continue to move the portfolio to names that we believe will be early-cycle beneficiaries of the recovery anticipated in the second half of 2009.