

Do you know how world events can affect your investments?

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As the rapid collapse of investment markets around the globe demonstrated just a few years ago, what happens in one country can quickly influence what happens in another. It would be a mistake for any investor to assume that just because you aren't actively invested in foreign companies, events occurring outside the United States won't impact your portfolios or plans.

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With the ever-increasing interconnectivity of the global markets, you need a financial partner with perspective to help you stay on top of it all.

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What You Should Know:

1. Global commodity supply and demand are parts of the equation.

A large part of the interconnectedness of world economies is based on their supply of and demand for certain commodities essential to economic growth. These include oil and grain – the fuels that keep machines and people running – as well as precious metals and other components essential for manufacturing. The availability of these materials can directly impact not only commodity prices, but the share prices of publicly traded companies that rely on them and the consumer prices of the goods those companies produce.

- China, which has reported robust economic growth in recent years, has experienced significant upticks in demand for numerous commodities, including cotton.

- In May 2011, cotton prices were more than double their 10-year average, prompting retailer The Gap to announce an anticipated 20% cost increase per clothing item for the second half of the year. The Gap's stock dropped more than \$3 per share on the day of the announcement.
- Meanwhile, increased demand for consumer goods from China's emerging middle class has created significant expansion opportunities for U.S. retailers over the past year, particularly in the area of online commerce.

2. International politics often play a role.

The political climate in nations possessing high concentrations of the commodities we use every day can also have a significant impact on the prices of those commodities and the publicly traded companies that deal in them.

- The United States consumes nearly 19 million barrels of petroleum products per day, just under half of which are domestically produced.
- Of U.S. petroleum imports, roughly half come from nations in the western hemisphere while the rest come from Africa (22%), the Persian Gulf (17%) and other sources (10%).¹
- During the wave of political unrest that spread across the Middle East in early 2011, the price of oil climbed to more than \$115 per barrel in late April. Shares of Exxon Mobil peaked at \$87.98 that month, up from \$74.55 from the beginning of the year.

3. Sovereign debt has shared effects.

- Economic growth requires capital, and to raise that capital, nations often sell debt to other nations. But when the resultant growth doesn't meet expectations, the risk associated with those debt investments increases even as the issuing nation's credit worthiness decreases. This type of situation was playing out on the world stage – and impacting U.S. markets – even before our own federal deficit and debt ceiling began dominating headlines.
- In early 2010, concern over rising government deficits and debt levels in Europe – most notably Greece, Ireland and Portugal – raised potential default concerns for the nations that held that debt.
 - While austerity measures and the promise of loans from the International Monetary Fund helped keep fears in check over much of the next year, concerns resurfaced on May 23, 2011, after the defeat of Spain's ruling party and a warning from S&P on Italy's debt

sparked a steep decline in stocks and commodities.

4. Nature's course can be unpredictable.

In March 2011, a 9.0-magnitude seismic event off the coast of Honshu sent tsunami waves crashing into Japan. The devastation was massive, taking thousands of lives and ravaging Japan's infrastructure – including the cooling system at Fukushima Daiichi nuclear plant, which caused radiation to leak into the ocean and air. As the world's third-largest economy, Japan's tragedy had a multitude of implications for the global economy – some of which have yet to reveal themselves.

- The reactor leak renewed global concerns about the safety of nuclear energy, prompting some analysts to revisit their expectations of an anticipated global "nuclear renaissance" and revise their outlooks regarding other forms of energy.
- Disruptions in the production capabilities and supply chains associated with certain consumer electronics (of which Japan is a leading manufacturer) is expected to impact the availability and pricing of these goods.
- The necessary rebuilding of damaged infrastructure is expected to increase demand for certain materials and machinery.

What You Should Do Now:

Baird's resources on three continents provide the international insights required to offer investment advice with the bigger picture in mind. Consult your Baird Financial Advisor to discuss the implications of the current global environment for your portfolio and plans. ■

¹U.S. Energy Information Administration