

BF&M Investment Matters



GLOBAL OUTLOOK

DEVELOPED EQUITY MARKETS TO CORRECT

Markets have risen beyond the underlying economic fundamentals and could decline

BUYING OPPORTUNITY CORPORATE BONDS

This opportunity is closing but value can still be had.

EMERGING MARKET S TO OUTPERFORM

Emerging markets should remain stable while developed markets may stutter.

CONTINUED GOVERNMENT INTERVENTION IN THE FINANCIAL SYSTEM

Governments are buying back their bonds to provide stimulus.

PROTECTIONISM MAY HAMPER GLOBAL GROWTH

In response to the credit crisis, stronger regulations and stringent lending practices may hamper global access to capital and thus global growth.

DIVERSIFICATION BENEFITS TO RE-EMERGE

When investors risk tolerance returns, they may seek global opportunities along with other asset classes that were abandoned last year.

Financial Market Review - March 31st, 2009 to June 30th, 2009

Flying V's and a Quiet Summer

The environment in the first half of 2009 has been characterized by extremes. We saw a fresh bear market low, followed by a 30 percent rally; a wave of equity issuance by banks that had to beg for money six months ago; government bond prices plummeting after soaring last year; along with a warning that dominant UK and US government bond issuers might lose their top notch credit ratings.

These events have produced a series of "V" shaped graphs as markets trade within confined trading ranges. These "Flying V's" will have an influence on markets for the rest of the year. The most pronounced "V" is the equity market recovery from its March 9th lows. (See Chart 1) The MSCI World index rose over 40% in that time frame representing, one of the strongest equity market rallies in history.

The rally was driven by a somewhat dubious assumption that the worst of the recession is behind us and we could be near the trough of the economic cycle. This optimism of economic recovery is fueled by the large monetary expansion from governments all over the world. Central bankers flooded the market with trillions in an effort to reignite their economies (See Chart 2).

On the consumer front, unemployment is still increasing but at a lesser rate. The shocking unemployment rate and increasing job uncertainty is leading to an increase in the personal savings rate after a period of over twenty years of decline (See Chart 3). This more cautious to save versus spend approach by consumers will lead to a slower GDP in the future.

Economic & Market Outlook

How will the financial markets fare in the future? The least desirable and

most likely outcome is that they will tread water without making much headway.

The green shoots of economic recovery might be wilting by Summer. The "Flying V's" of Spring could soon fold their wings as the updraft from the global economic stimulus subsides.

The returns from the markets over the summer period will be affected by poor economic data such as the outlook for GDP growth, inflation, and interest rates. The recent pull back and sideways trading in the equity market is evidence that confidence in a strong sustained economic recovery is fragile at best.

We anticipate a two stage recovery. Stage one is the sharp initial run up, that is almost over and appears to be losing momentum. Current prospects are for higher than expected unemployment, a slowing GDP, followed by rising inflation.

Despite the media's focus on slowing rate of decline recently, the fact remains economic statistics are still strongly negative. Thus the recession could be long and sustained. As the statistics begin to fall on the downside of expectations, investors' may sell to take profits on gains from the recent massive rally.

In the second phase, we could see sub par GDP growth as consumers who are still working increase their savings, while unemployment benefits run out for those who are not. Both business and consumers will pay down debt rather than invest at a lower rate of return. With a rising specter of inflation, central banks around the world will retract a portion of the fiscal stimulus. This will put a damper on economic growth. A false start in the developed world or slowing GDP growth in China could threaten the global economic rebound. China's momentum is critical to global GDP growth in the

near term.

Emerging markets are a good long-term opportunity for equity investors, however they are currently fully priced. Emerging markets are better positioned to withstand a slump than their developed colleagues. Many emerging economies are not over-leveraged and they have well-capitalized banking systems. Their export driven growth models have led to positive fiscal surpluses in foreign currencies.

Their younger demographic results in increased domestic consumption, due to higher birth rates, rising incomes, and continued urbanization. Added infrastructure and improvements in transportation links will support commodity prices and their economies going forward.

For fixed income investors, the potential oversupply in government bonds from increased issuance, coupled with possible inflation, will lead yields to rise and put pressure on prices. So far this year, US treasuries have given back some of their gains while a variety of corporate bonds have delivered solid total returns.

There is still value in high quality corporate bonds as they offer attractive yields. Corporate bonds with "A" and "BBB" credit quality issues are attractive albeit with some risk as yield spreads have not compressed as much as "AA" bonds. Convertible bonds and emerging market debt offer promise.

In conclusion, the global economy is not yet on the sound-footing necessary to sustain a robust rally without stabilization in lending practices; of home prices; in employment; and industrial production

Economies are approaching the tipping point, but markets have over shot the fundamentals in the first quarter and could correct quickly.

Chart 1

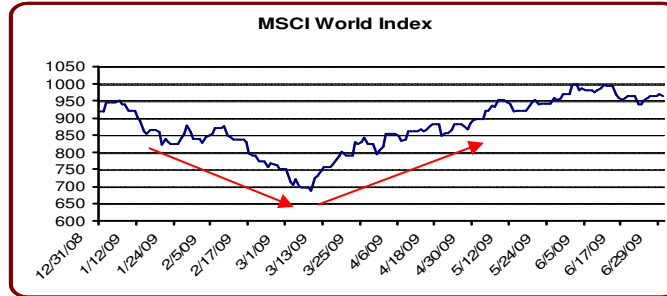


Chart 2

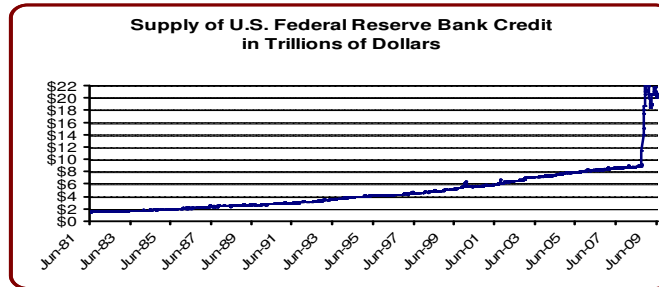


Chart 3



INDEX / CURRENCY	VALUE	U.S. DOLLAR 2009 YTD
S&P 500	874.47	1.78%
Dow Jones Industrial Average	8,139.56	(3.75%)
Nasdaq	1,740.29	16.36%
Toronto Stock Exchange	9,600.46	21.04%
Brazil Bovespa	48,918.82	62.52%
S&P Europe 350	852.08	6.16%
UK FTSE 100	4,140.23	8.07%
Japan Nikkei 225	9,420.75	5.73%
Hong Kong Hang Seng	17,721.07	27.74%
Australia S&P/ASX 200	3,767.90	21.94%
Euro	1.646	0.44%
Pound	1.432	12.78%
Yen	96.36	(5.94%)
CRB Commodity Index	249.96	8.90%

Past performance is no guarantee of future returns
Sources: Wall Street Journal, Bloomberg LLP, Morningstar, FT.

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