



FLASH REPORT: GLOBAL RESOURCES

Portfolio Update

Commodity based investments rose in April. There is a great deal of “headline risk” in the financial markets, including the Greek debt crisis (really a Southern European debt problem) and the slowdown in China. However, economic growth in other countries, most notably the US, has generally been better than expected, boosting both equity and commodities markets. The Chinese government is deliberately slowing its economy to cap inflation and to limit the bad debt problem brewing in its financial system. We have become more defensive in the Portfolio, increasing allocations to higher yielding sectors and reducing those sectors most sensitive to global growth. The Dow Jones-UBS Commodity Index gained 1.9%, with commodity equities mixed.

Crude oil prices were up 2.5% during the month. Demand for gasoline in the US was the strongest this April of any April in history¹. Demand is increasing elsewhere, especially in Asia as the number of passenger cars has increased steadily. Natural gas was slightly positive during the month, though still down 30% for the year. Most energy companies were profitable. We have added to integrated energy companies and to natural gas pipeline companies.

The biggest story in the energy sector is the massive oil spill in the Gulf Coast of the US. It has several potential impacts, though the final outcome may not be known for weeks or even months. The Obama administration had been supportive of increased drilling off the coast, a position that is now in doubt. There will certainly be additional restrictions on any new offshore drilling. Stocks in the sector have not reacted materially to the oil spill, in part because there has always been a great deal of uncertainty regarding the future of offshore drilling.

The Chinese economic slowdown is felt most acutely in the base metals like copper (down 6%), aluminum and zinc, both down just over 4%. We had reduced exposure to these metals during the first quarter, eliminating aluminum altogether. Additional reductions were made in these sectors in April. Diversified mining companies also declined.

Steel companies, a dominant theme in the Portfolio, were reduced to less than 5%. Collectively, these companies were up 14% during the first three months of the year, a move that warranted profit-taking regardless of the economic backdrop. We added exposure to molybdenum, used in making steel. The HSBC Global Mining Index lost 7.7%, responding to declines in underlying commodity prices as well as fears of a slowdown in China.

Gold rose 5.4%, surprising since the dollar also strengthened during the month. Newgate has had relatively modest positions in precious metals this year due to the rising dollar. It is unusual to have both dollar and gold strength. We believe that the uncertainty regarding Greece and the possibility of the crisis spreading to other countries in Europe – Portugal and Spain being the most vulnerable – are the likely causes of this occurrence. We modestly increased the allocation to precious metals to almost 5%.

During April we reallocated to utilities stocks. Their high dividends are expected to offer downside protection, and these companies benefit from lower prices for coal and natural gas. We also added “wet” shippers, those that transport oil, to the dry bulk shipping companies that we have held for some time. These companies represent an active allocation to oil and increased oil demand, but with high dividends and lower exposure to fluctuation in oil prices. ♦

¹Because of seasonal factors, energy consumption is measured as a function of the same month in previous years, rather than month to month changes. Demand for gasoline in the US is highest June-August, when people take driving vacations.

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