



NEWGATE
CAPITAL MANAGEMENT LLC

August 8, 2011

US DOWNGRADE

Given the increasingly dysfunctional politics in Washington, Friday's downgrade of the United States' debt rating is not surprising, even if the timing was. After so badly missing the problems in the securitization market, ratings agencies are eager to regain credibility, especially with Asian clients who have publically fretted about US budget deficits for years. The market reaction on Monday morning has been predictable; selling all risk assets with the exception of gold.

What does the downgrade of the US mean for the future? No one knows with any certainty, but a few facts have come to light.

- 1) Emerging markets have become increasingly important given their role of net lenders. China's role in calming global financial markets is now paramount. The Chinese have been reluctant to take a leadership role in global events. They no longer have that option.
- 2) China's transition to a more domestically driven, less import sensitive economy is increasingly urgent. This can be accomplished easily in the short term by increasing infrastructure spending. However, for long term success the Chinese

need to increase consumer spending, a far more difficult task.

- 3) Among the major developed world currencies, the US dollar still represents the best house on a bad street. Given actions taken over the weekend by the European Central Bank to shore up Spanish and Italian bonds, further downgrades across the Eurozone appear likely.
- 4) Hard assets remain attractive even as the global economy slows due to increased inflationary expectations. Despite a major correction in global equity markets, copper remains over \$4/lb and oil in Europe is over \$100/bbl.
- 5) Non-financial corporations globally are incredibly healthy, due in part to their unwillingness to expand operations. Depending upon the company in question, corporate debt may be just as attractive as government bonds.

Of course, the global financial condition is extremely fluid and likely to change. No one truly knows what will happen over the coming days as the financial markets find themselves in terra incognita. ♦

M I N D I N G T H E F U T U R E T O D A Y TM

Any opinions expressed are subject to change without notice, and any statements of fact have been obtained from, or are based on, sources considered reliable, but no representation is made by Newgate as to their completeness or accuracy. There is no assurance that estimates/forecasts will be realized. The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. This material does not constitute investment advice and should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing involving foreign economic, political, monetary and/or legal factors. International investing may not be for everyone. These risks may be magnified in emerging markets. © 2011 Newgate Capital Management LLC