

*From the Desk of Our Chief Investment Officer*

**David L. Donabedian, CFA**  
*Chief Investment Officer*

Dave Donabedian is chief investment officer of Atlantic Trust, returning to the firm in 2009 after serving as chief investment officer for Ashbridge Investment Management, LLC, from 2006 to 2009. As a leading investment expert in our industry, Dave frequently appears on television networks, such as CNBC, and provides insights in publications, such as *Barron's*. Previously, from 1996 to 2006, Dave worked with Atlantic Trust as managing director and chief economist. Dave received a B.S. in economics and a B.A. with honors from The Wharton School at the University of Pennsylvania. He subsequently earned an M.B.A. from Columbia University Graduate School of Business.

After a grim third quarter, investors reassessed market conditions in October and concluded that previous pessimism was overdone. The result was more volatility—but this time, to the upside. Global stocks surged 10.4% in October—the fifth best monthly performance since 1970.\* The two issues that plagued market sentiment over the summer—the eurozone debt crisis and U.S. recession risks—actually became catalysts for the October rebound. In both cases, markets concluded that the previously feared worst case scenarios would not emerge. We cover both topics below.

#### **Eurozone Debt Crisis Resolution...or Not**

Eurozone governments cobbled together the outline of a debt rescue plan during the last week of October that produced a strong relief rally in global markets. While the proposals fell well short of the details originally promised, they calmed the crisis mindset, at least for a short while. Basics of the plan:

- Owners of Greek government debt agreed to a 50% “voluntary” loss on their holdings. This plan reduces Greece’s long-term liabilities and, along with an austerity plan, is designed to reduce their debt/GDP ratio to 120% by 2020 (down from about 180% now).
- Eurozone banks will be required to raise their Tier 1 capital ratios to 9% by June, 2012. This plan is designed to alleviate worries about the balance sheets of banks that will be writing down the value of their Greek debt holdings.
- The European Financial Stability Fund—the previously approved bailout fund—will be leveraged by four or five times, potentially creating up to one trillion euro in aid. This part of the plan is particularly vague, but they are pursuing two simultaneous options. One would use the funds to guarantee a portion of losses on other entities’ purchases of Spanish and Italian debt. The second would create a separate fund attracting investors from around the world—a sort of multi-national sovereign wealth fund. The idea is to spread the risk and attract cash-rich nations such as China and Brazil.

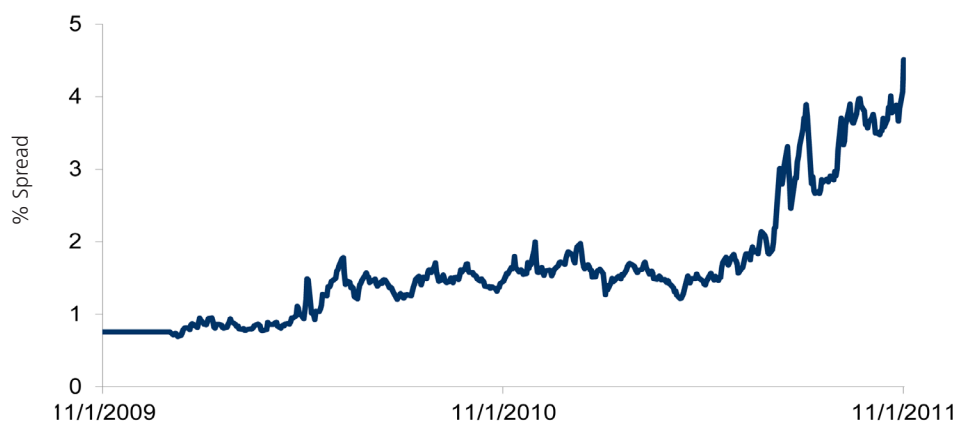
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The markets immediately embraced the plan, with eurozone stocks up about 6% in a single trading session. In the days that have followed, however, new doubts emerged about the viability of the plan. The Greek Prime Minister's surprise announcement that he intended to put the whole plan up for a national referendum has dropped European stock prices and the euro below pre-agreement levels. It again calls into question the ability of 17 democracies to work in coordinated fashion.

Additionally, there are likely to be squabbles over plan details, particularly as it relates to Italy's promises to get its fiscal house in order. Italy is the world's third-largest sovereign bond market, has an above-average debt/GDP ratio and a stagnant economy. It is unsettling that Italy's bond market has not responded positively to the plan so far (see chart below). Another source of risk may be the yet-to-be-negotiated process for Greek bondholders to swap into a substantially-discounted debt vehicle.

### Italian Yield Premium Over Germany (10-Year Government Notes)



Source: Bloomberg L.P., as of 11/1/2011

The economic outlook in Europe remains gloomy, and the bank recapitalization requirements could be a negative as banks may choose to contract their balance sheets (i.e., do less lending) rather than raise equity capital. In short, eurozone debt issues will continue to be an ongoing source of angst to global markets.

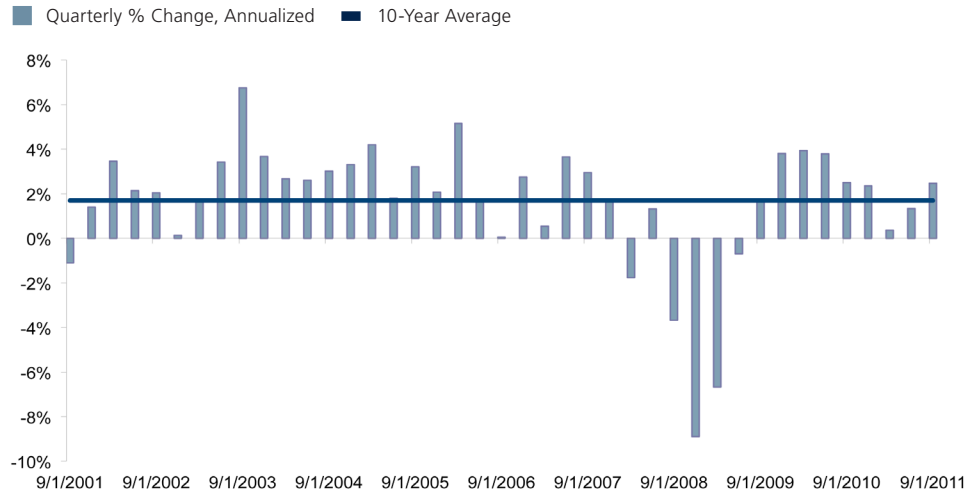
### U.S. Economy

Recent economic news has improved sentiment in the U.S. markets. Third-quarter real GDP rose 2.5%, better than the anemic 1.3% and 0.4% readings from the first two quarters of the year (see chart on page 3). Consumer spending picked up a bit and business investment was strong. Nevertheless, this is unlikely to be the dawn of a surge in economic activity. It still looks like slow growth as far as the eye can see. Importantly, though, recent evidence supports that the worst case scenario has been averted for the U.S. economy and corporate earnings.

### What November Brings...

With just two months left in the year, stock markets have improbably clawed back to about even. The weeks ahead are full of potential market-moving events and issues that we will continue to follow. Global policymakers will dominate the airspace, again making "macro" news the primary driver of markets.

## U.S. Real GDP Growth



Source: Bloomberg L.P., as of 9/30/2011

Key dates to follow:

- **November 2:** Fed's FOMC meeting concludes; no policy change likely but look for Bernanke comments on the economy.
- **November 3-4:** G20 meeting of world leaders; more details of euro rescue plan expected to be in place.
- **November 4:** October U.S. employment report is due.
- **November 23:** Congressional "supercommittee" deadline to agree on \$1.2 trillion in future budget cuts; failure could trigger another credit rating downgrade.

### Asset Allocation

At its most recent meeting, the Atlantic Trust Asset Allocation Committee (AAC) decided to leave policy unchanged. This includes our recommendation to avoid European equities. Since our initial call to cut European exposure in early August, European stocks are down almost 13% while the S&P 500 has dropped just 2.5%.\*\*

We remain skeptical that the eurozone rescue plan represents a true solution. Meanwhile, the economies there are flirting with recession, and some aspects of the debt rescue plan may make the economy worse in 2012. Continued growth in the U.S. economy, however mediocre, is a better bet. Therefore, our recommendation to boost U.S. equities at the expense of Europe still makes sense.

**As always, the most important asset allocation discussion is between you and your relationship manager. While the Atlantic Trust AAC works hard to identify general opportunities for return enhancement and risk reduction, every client portfolio is managed to address customized objectives. Therefore, some of the recommendations previously referenced may not be appropriate for your specific situation, so please speak with your Atlantic Trust relationship manager.**

\* Bloomberg. Index used is Morgan Stanley Capital International's (MSCI) World Index, denominated in U.S. dollars terms. The MSCI World Index is a market capitalization-weighted benchmark index made up of equities from 23 countries, including the U.S.

\*\* Bloomberg, from 08/01/11–10/31/11. Indices used: S&P 500 Index and Euro Stoxx 50 Index, both in U.S. dollar terms. The S&P 500 Index is a stock market index tracking 500 companies in various industries with a large amount of market capitalization. It is a capitalization-weighted index, meaning that stocks with higher market caps affect the average more. Euro Stoxx 50 Index is a stock index of eurozone stocks designed by Stoxx Ltd, an index provider owned by Deutsche Börse and SIX Group, providing a blue-chip representation of supersector leaders in the eurozone.

This does not constitute a recommendation of the suitability of an investment strategy for a particular investor.

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