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Capital markets have been remarkably upbeat in the face of some daunting headlines. Stock prices posted gains during the first quarter, even as political rebellions spread across northern Africa and the Middle East, oil prices surged to more than \$100 a barrel, a series of devastating earthquakes and tsunamis battered Japan, and the U.S. got involved in a military operation in Libya. What could possibly motivate progress in the stock market while there is so much uncertainty around the globe? In a word, profits. The search for those profits has increasingly taken companies beyond U.S. borders.

The 2008 credit crisis put a choke hold on business activity, causing profits to collapse and forcing layoffs that spiked our nation's unemployment rate to around ten percent. As order was eventually restored to the capital markets, companies began to regain their footing. Companies initially focused on aggressive cost cutting and, eventually, revenue growth to restore profitability. Corporate profits have now climbed back to their pre-crisis levels and appear to be headed into record territory this year. In spite of all the difficulties and headwinds posed by troubling news events, the rebound in corporate profits has propelled strong gains in the stock market during the past couple years.

Even though the stock market has bounced back, it has not actually felt like much of an economic recovery. Job creation has only recently begun to pick up here in the U.S., and many people are still having a hard time finding work. In the meantime, their home equity has been depleted by the real estate slump. Unlike previous recoveries that were led by improving conditions at home, this recovery has been fueled by faster-growing emerging market countries. Sales to customers outside the U.S. now account for nearly 50 percent of the total revenue for companies that comprise the S&P 500 Index. That figure has grown from around 30 percent just a decade ago. In order for a company to be worth more to investors over time, it needs to grow its sales and profits. Increasingly, companies are finding that opportunity for growth is more favorable outside the U.S., a trend which seems likely to continue in the years ahead.

The U.S. is not alone in the pursuit of emerging market business. Most of the developed nations around the globe currently find themselves in a similar predicament, with sluggish economic activity and heavy sovereign debt burdens. Companies are adapting to the situation by focusing their efforts in geographies that offer brighter prospects. Pursuing business in foreign markets might require a new approach. Here in the U.S., consumers are often inclined to "buy American" out of a sense of patriotism, but that is not the case when companies venture abroad. Cultural issues, trade and tariff agreements between countries, currency exchange rates, transportation costs, and a variety of other factors often become important parts of the equation. International business is more like the Olympics, in which the best organizations from around the world are competing to win new customers.

U.S. tax policy is challenged to deal with the growing importance of multi-national business, and we expect the topic of repatriation of foreign-earned profits will become a more widely debated national policy issue. The expansion of international business activities has resulted in U.S. companies accumulating roughly \$1 trillion of cash overseas. Bringing those funds back to the U.S. would allow companies to hire additional domestic workers and make other investments in U.S. based projects. However, repatriating foreign-earned profits often subjects them to additional U.S. taxation, based upon the difference in tax rates between the U.S. and the country where the profits were originally generated and already taxed. The U.S. has one of the highest corporate tax rates of all developed nations. There may not be much popular support for giving big corporations a "tax break," although a lot of public policy priorities could be served by encouraging companies to bring funds back to the U.S. and invest them here.

Emerging market countries have led this economic recovery. That has highlighted the increased role of government in developing and commercializing relations with foreign countries, as well as setting tax policies that recognize the importance of competing effectively in international business. It also means that problems anywhere in the world can have an impact on sales and profitability of the companies we own in our portfolio. The fortunes of people everywhere on the planet are more interconnected than ever.

As people, we watch the news with concern for all the troubling events happening in the world. However, as investors, we count on companies adapting to the environment and finding ways to expand their business activities. Even in difficult times, innovation and a rising population of consumers around the globe create profit opportunities.

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