

Scout Investments

Economic and Market Outlook

Tax Day and Credit Ratings

April 19, 2011

William B. Greiner, CFA
President and
Chief Investment Officer
william.greiner@scoutinv.com

2011 Outlook

GDP GROWTH:
3.0%

UNEMPLOYMENT:
9.0%

INFLATION:
1.75%

FED FUNDS RATE:
0.35%

Federal tax filings were due yesterday. Standard & Poor's (S&P) has changed its opinion of U.S. federal debt. S&P decided to lower its *outlook* of U.S. federal debt to *negative* from *neutral*. All of this happened on the day when many citizens were writing significant checks to the U.S. Treasury. Rather ironic. This caught equity markets off-guard as the Dow Jones was down almost 250 points on the news. What does this mean?

We have long held that debt (amount and structure) along with weak Gross Domestic Product (GDP) growth – particularly in relation to our trading competitors – are leading to a changing environment in the world's economy and financial system. This combination of high debt and lack of relative growth in income is leading to bi-fabrication in economic growth and credit solvency. The relative value of the U.S. dollar is under attack. More clearly, the ongoing standard operating procedure of government deficit spending is not sustainable.

With this in mind, the process by which our country and others make substantial changes to how the society operates is never clean or easy. The U.S. is now going through this process, and we have been experiencing this change substantively for years. In our opinion, we have entered the final stage of this change – *we as a society are now debating what role government will fulfill as we go forward. How are we going to pay for the debt structure (past spending) in the future? What should the citizenry of our country expect from our government?* These questions are actively being answered.

In this light, the change in outlook by S&P should not come as a major shock. This national *debate* has been ongoing for quite some time and will continue to unfold. This is the *stuff* of “black swan” events and processes. Guttural, grinding change is going to occur within our country. It has become clearer this week that if we as citizens do not make the necessary changes and decisions to the role of government going forward, the bond market will make those decisions for us.

Making these decisions and changes will be difficult for society. If we do not make the necessary changes, and instead allow the world's financial markets to make these decisions, the outcome will not be pleasant. Simply look at Greece today. This too can happen to the U.S. if we do not get our house in order. Americans should recognize that *we have passed the period where we should do something about deficit spending.* The world's financial markets are starting to tell us that *we have to do something about deficit spending.*

Final Word

In January and March, we believed that price risks were rising within the U.S. equity market. We stand by that view. We did not believe at the time, nor do we currently believe, that we are facing a new cyclical *bear* market. We do not believe monetary policy moves have been supportive of substantially lower equity prices. Additionally, the six-month rate of change of the leading economic indicators and the shape of the yield curve tell us we are quite a ways off from the next economic recession. Consequently, if equity values contract, we believe the downside move may be limited to 10-to-20 percent from peak.

In the meantime, as our country goes through this grinding, politically changing process, we should expect the financial markets to remain volatile.



William B Greiner, CFA
President and Chief Investment Officer
Scout Investments

DISCLOSURE AND IMPORTANT CONSIDERATIONS

Scout Investments offers an array of investment management services for institutional separate accounts and mutual funds through a stable of institutional asset managers. Equity solutions in domestic large cap, mid cap, small cap, international, international small/mid-cap and global equity portfolios are offered through Scout Investment Advisors. Fixed income products in core plus, core, intermediate, long duration, low duration, absolute return and real return (TIPS) are offered through Reams Asset Management. Scout Investments, Inc. is a subsidiary of UMB Financial Corporation.

This report is provided for informational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. Statements in this report are based on the opinions of Scout Investments and the information available at the time this report was published.

All opinions represent our judgments as of the date of this report and are subject to change at any time without notice. You should not use this report as a substitute for your own judgment, and you should consult professional advisors before making any tax, legal, financial planning or investment decisions. This report contains no investment recommendations and you should not interpret the statements in this report as investment, tax, legal, or financial planning advice. Scout Investments obtained information used in this report from third party sources it believes to be reliable, but this information is not necessarily comprehensive and Scout Investments does not guarantee that it is accurate.

All investments involve risk, including the possible loss of principal. Past performance is no guarantee of future results. Neither Scout Investments nor its affiliates, directors, officers, employees or agents accepts any liability for any loss or damage arising out of your use of all or any part of this report.

“UMB,” “Scout” and the “Scout” design – Reg. U.S. Pat. & Tm. Off. UMB Financial Corporation claims service mark right in “Scout Investments” and “See Further.”

Copyright © 2011. UMB Financial Corporation. All Rights Reserved.

NOT FDIC INSURED/ NO BANK GUARANTEE/ MAY LOSE VALUE

 Scout® Investments

See Further