Scout Investments
Economic and Market Outlook

Not All is Silver and Gold

May 9, 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%

Last week, the commodity, currency and financial markets moved dramatically. Commodities and stocks were weak while the value of the U.S. dollar rose in relation to foreign currencies. Was last week meaningful? Why did we see the markets move in a vicious fashion? In this piece, we attempt to address these issues.

In addition, last Friday, the Bureau of Labor Statistics (BLS) released THE number for April's Employment Situation Report. Below we provide some comments regarding this report.

The BLS Report — Good News!

The BLS released information that nonfarm payrolls rose by 244,000 during the month of April – as the unemployment rate edged up to 9.0 percent. Gains in employment were broad-based, occurring in the industrial, manufacturing, mining and several service sectors of the economy. The private sector of the economy added 268,000 jobs, while government shed 46,000 positions. To put these numbers in perspective, most forecasters (including ourselves) were looking for a number lower than 200,000. The previous two months of data were revised upwards; as the economy added 46,000 more jobs than initially reported. This report represents a positive surprise.

One hiccup in the information was the "household" data which also includes small business information. This is not included in the "headline" data. For the month, including impact from small business activity, the economy shed 190,000 jobs. This data stream is extremely volatile and the corresponding weakness increased the unemployment rate to the 9.0 percent level. U6 data (unemployment rate including those who are marginally attached to the labor force, plus total employed part time for economic reasons) increased to 15.9 percent from 15.7 percent in March.

To put the employment report in perspective, we need to remember that the labor force is increasing by roughly 140,000 persons per month. The economy needs to grow enough to create at least this level of jobs, on an average monthly basis, to maintain a flat-line jobs picture. The total labor force totals a little more than 153 million folks. A total of 13.7 million people are currently unemployed. This data makes it clear why the economy needs to grow fast enough – Gross Domestic Product (GDP) growth in excess of 3.5 percent– to absorb not only the incoming increasing work force, but also to bring unemployment down significantly.

Scout® Investments

See Further

Commodity and Currency Markets – Not All is Silver and Gold!

If volatility is a trader's friend, the activity in the commodity and currency markets last week must have felt to some like a homecoming celebration! Most commodities swooned last week. The value of the dollar rallied significantly. What does all of this mean, if anything?

Commodity prices reflect supply and demand factors along with "speculative" activity, which is normally driven by investors' expectation of shifts in the relationship of supply and demand. Most commodities are purchased and sold in dollars – worldwide. Due to this link, using the U.S. dollar as the world's "reserve" currency, there exists a normalized negative correlation between the U.S. dollar exchange rate and commodity price changes.

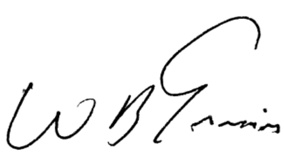
Commodity prices (as measured by the CRB Index) have risen by 45.4 percent since the lows earlier in 2010. During this same period of time, the value of the U.S. dollar compared to a market-basket of foreign currencies has declined by 16.4 percent. This is typical. During the last five years, there have been three "spikes" in commodity prices, the average of which commodity prices moved upwards by 47.0 percent. During each of these spikes, the value of the dollar declined by 16.1 percent on average. Are we entering a period where commodity prices may decline coupled with a period where the value of the U.S. dollar may increase? How does this tie to the end of the Fed's QE2 efforts? At this stage, significant questions without solid answers, but let's take a look at the demand side of this equation.

Market Demands

The growth rate of demand for commodities tends to be driven by macro economic activity. This only makes sense. As economic activity accelerates, demand for commodities tends to move upward. We have noticed a marked deceleration in worldwide economic growth. According to data from *The Economist* magazine, the "big six" economic areas of the world (U.S., China, Japan, Euro Area, Britain and Brazil) have shown growth deceleration recently. On average, recent quarterly GDP releases from these major economic areas are 1.52 percent weaker than was the case during the last 12 months as a whole. The most significant change has come from Japan and Britain. Japan's GDP growth rate has decelerated by a full 3.5 percent while Britain's has decelerated by 1.3 percent. These six economic areas represent 74.0 percent of worldwide GDP (data per the International Monetary Fund). It is becoming clearer that the growth rate of demand for commodities is starting to slow.

Final Word

We sense a changing landscape. Commodity prices cannot continue to rise indefinitely without the support of ever rising purchases, which eventually need to be backed by rising demand for those commodities. From a technical standpoint, last week's market activity may have been a flash in the long-term pan. But it is becoming clearer that the ever-rising commodity price story, in which many have been enamored, may indeed be a little long in the tooth. This is specifically due to deceleration in demand growth rates, backed by worldwide economic slowing.



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

Scout® Investments

See Further

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.

NOT FDIC INSURED/ NO BANK GUARANTEE/ MAY LOSE VALUE

Scout® Investments

See Further