



Presented by:

*Catherine S. Woodruff*

*Ph.D., CFA/CIC*

*Managing Partner*

*Director of Equity Investments*



5 Houston Center  
1401 McKinney, Suite 1600  
Houston, TX 77010  
Tel: (713) 853-2322  
Fax: (713) 853-2300  
[www.dhja.com](http://www.dhja.com)

# DAVIS HAMILTON JACKSON & ASSOCIATES

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## Capital Market Outlook for Global Equity Markets October 2007

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ACTIVE  
ASSET  
MANAGEMENT  
IMPLEMENTING A PHILOSOPHY  
& STYLE FOR OVER 25 YEARS



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# Global Equity Market Outlook

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- Macroeconomic Backdrop
- Key Issues
- Investment Implications
- Investment Themes
- Selected Stocks

# Macroeconomic Backdrop—Economic Growth

*2006 GDP and 2007 Estimated GDP Growth, by Country, GDP in millions of U.S. dollars*

	County	GDP	2007	2008
1	U.S.	13,244,550	2.2%	2.8%
2	Japan	4,367,459	2.3%	1.9%
3	Germany	2,897,032	1.8%	1.9%
4	China	2,630,113	10.0%	9.5%
5	UK	2,373,685	2.9%	2.7%
6	France	2,231,631	2.0%	2.4%
7	Italy	1,852,585	1.8%	1.7%
8	Canada	1,269,096	2.4%	2.9%
9	Spain	1,225,750	3.6%	3.4%
10	Brazil	1,067,706	4.4%	4.2%
11	Russia	979,048	6.4%	5.9%
12	Korea	888,267	4.4%	4.4%
13	India	886,867	8.4%	7.8%
14	Mexico	840,012	3.4%	3.5%
15	Australia	754,816	2.6%	3.3%

# Macroeconomic Backdrop—Economic Growth

*Nominal GDP Per Capita, 2006 to 2008, in USD*

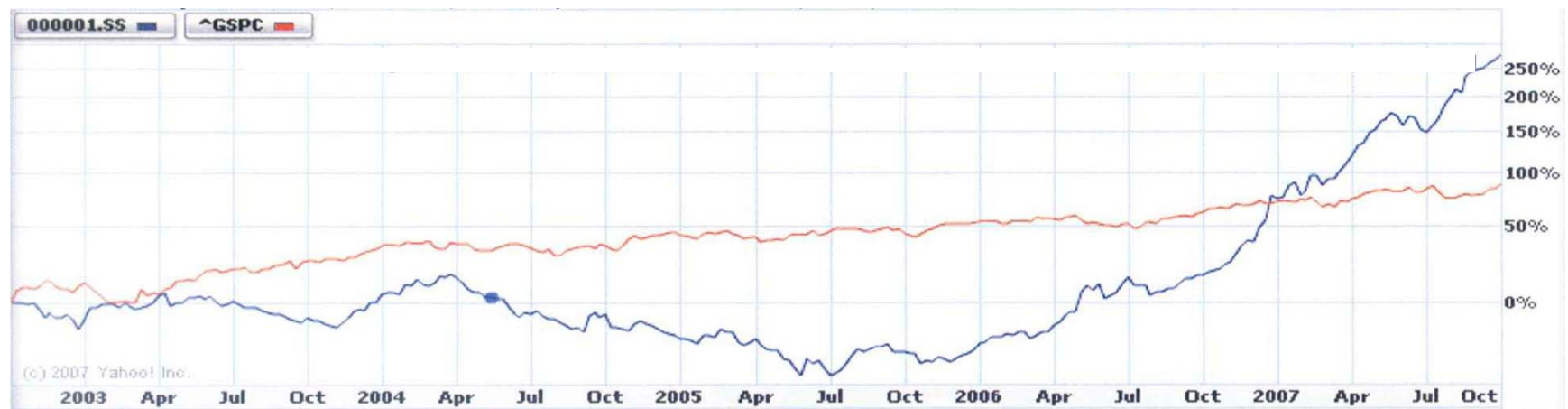
	County	2006	% Chg. 2006	% Chg. 2007E	% Chg. 2008E
1	U.S.	44,190.49	5.3%	2.9%	3.7%
2	UK	39,213.08	5.9%	11.5%	5.8%
3	Canada	38,951.46	11.0%	-1.5%	4.0%
4	Australia	36,553.43	4.6%	7.6%	2.6%
5	France	35,404.20	4.4%	7.0%	4.1%
6	Germany	35,203.87	4.0%	6.5%	3.5%
7	Japan	34,188.04	-4.2%	-1.5%	3.6%
8	Italy	31,790.63	4.1%	7.3%	3.9%
9	Spain	27,767.19	6.8%	9.1%	5.4%
10	South Korea	18,391.68	11.8%	5.9%	5.9%
11	Mexico	8,066.25	8.3%	5.7%	5.0%
12	Russia	6,856.08	28.8%	19.7%	15.8%
13	Brazil	5,716.67	19.4%	8.8%	4.9%
14	China	2,001.46	16.6%	15.4%	11.4%
15	India	796.828	11.9%	9.3%	8.1%

# Macroeconomic Backdrop—Comparative Equity Returns

	Percent Change YTD	Percent Change YTD Currency Adjusted
<b>Americas</b>		
Dow Jones Industries Avg.	12.96	12.96
S&P 500 Index	10.16	10.16
NASDAQ Composite Index	16.41	16.41
S&P/TSX Composite Index	10.60	31.27
Mexico Bolsa Index	21.48	21.31
Brazili Bovespa Stock Index	42.10	68.23
<b>Europe/Africa/Middle East</b>		
DJ Euro Stoxx 50	7.83	15.63
FTSE 100 Index	6.63	11.26
CAC 40 Index	5.35	12.97
DAX Index	21.07	29.82
IBEX 35 Index	5.07	12.67
S&P/MIB Index	-1.26	5.88
Amsterdam Exchanges Index	11.96	20.05
OMX Stockholm 30 Index	9.86	16.39
Swiss Market Index	4.51	7.78
<b>Asia/Pacific</b>		
Nikkei 225	-0.28	1.40
Hang Seng Index	43.10	43.52
S&P/ASX 200 Index	18.84	35.20

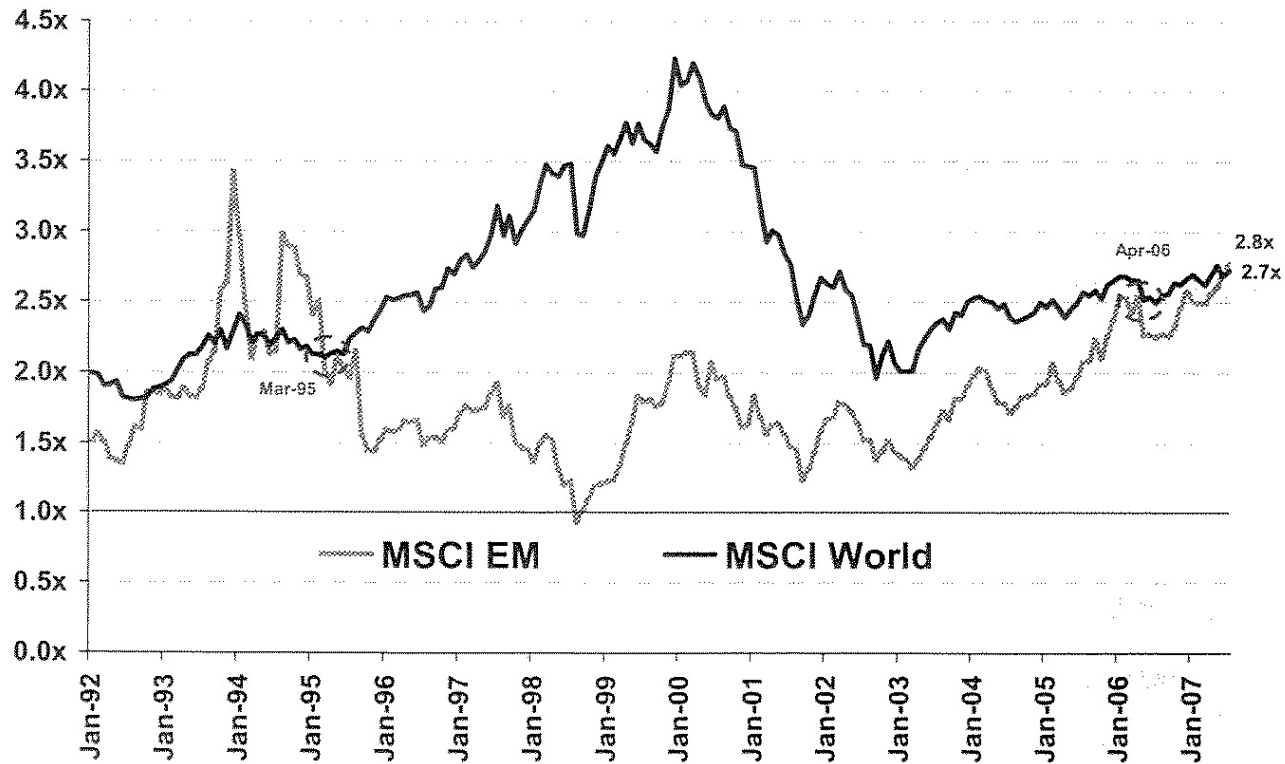
# Macroeconomic Backdrop—Comparative Equity Returns

S&P500 Index vs. Shanghai Stock Exchange Composite Index  
5 Year Performance



# Macroeconomic Backdrop—Valuation

## MSCI EM vs. MSCI World Price/Book Valuations



Source: MSCI, FactSet, Morgan Stanley Research. Data as of 07/04/07.

## Key Issues

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- Subprime Fallout
- Dollar Decline
- Global Effects of Slowing US Economy
- Country-Specific Growth Headwinds

# Key Issues—The Falling Dollar

## U.S. Dollar to Japanese Yen Exchange Rate



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# Key Issues—The Falling Dollar

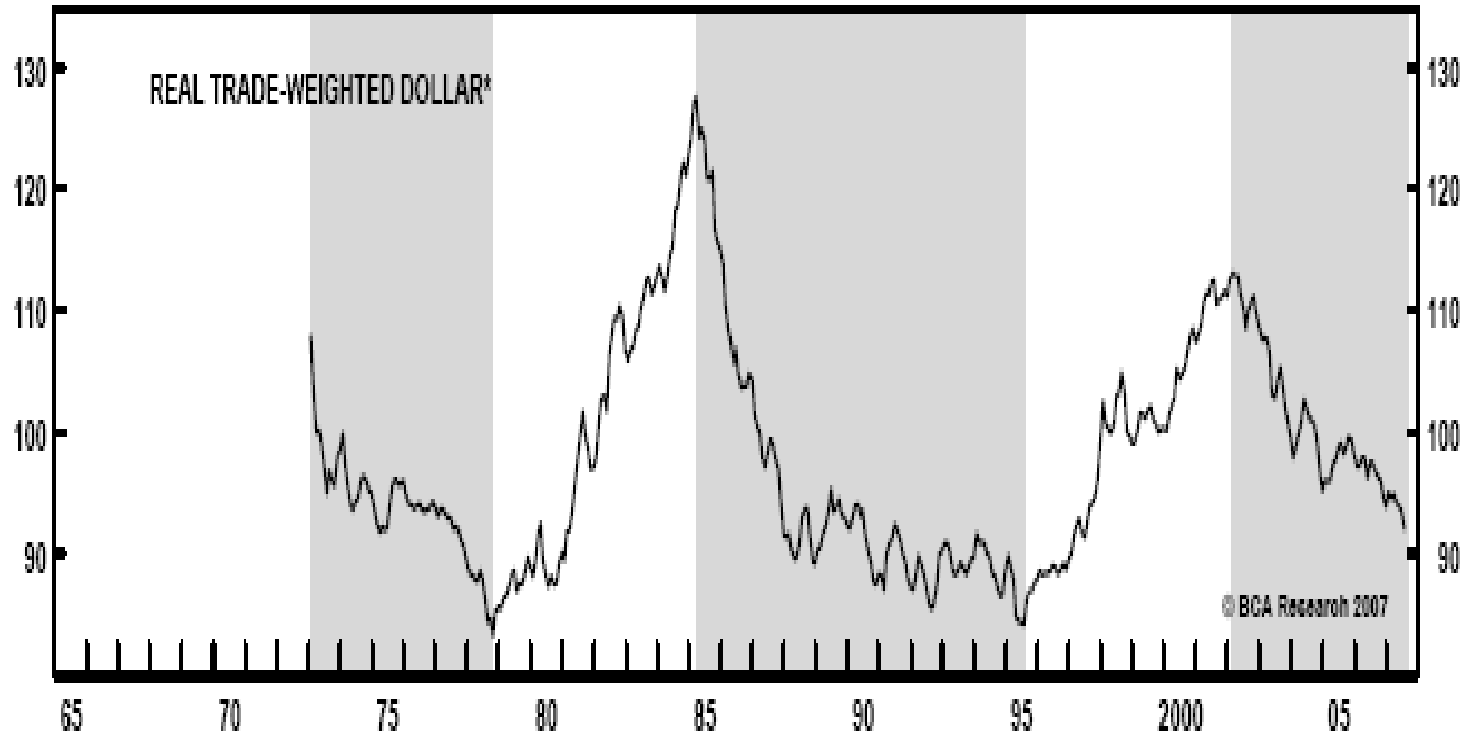
## U.S. Dollar to Euro Exchange Rate



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# Key Issues—The Falling Dollar



\*SOURCE: THE FEDERAL RESERVE

NOTE: SHADED AREAS CORRESPOND TO PERIODS OF FALLING DOLLAR

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# Implications for Equity Investing

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- **Focus on**
  - Higher quality.
  - Larger capitalizations.
  - Diversified global growth.
  - Growth over value.

*Emerging market still attractive, but selectivity more important*

## Some Investment Themes

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- Urbanization/Infrastructure spending
- Rise of the middle class in emerging markets
- Globalization/Communication

## Selected Stocks

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- General Electric/United Technologies
- Oracle
- Pepsico/Coca-Cola
- Nokia
- Schlumberger
- BHP Billiton
- Cognizant Technology Solutions
- ProLogis