

Discussions surrounding Standard & Poor's recent downgrade of US Government debt have been multifaceted: economic, financial, and political. The downgrade of US debt has raised important questions about the standing of other AAA-rated countries, France in particular. We've lined up some key indicators for the world's major economies next to their debt ratings on the following pages, and indeed there are several items of interest: reasons for caution and areas of potential opportunity.

The countries that are attracting a lot of negative attention in the market lately are those that bear both heavy debt loads AND substantial deficits. You'll see in the data below that the United States is among this group, as are Portugal, Ireland, Italy Greece and Spain, (of course). But the United Kingdom and France also suffer from a combination of heavy debt loads and substantial deficits, yet both have maintained their AAA ratings -- only Greece and Ireland have larger Deficit-to-GDP ratios than the UK does. From a purely objective standpoint, one would conclude that British and French ratings merit serious reconsideration. It is also important to note, as Standard and Poor's has recently emphasized, the importance of political risk in these evaluations and data analysis alone does nothing to measure that. Another important issue is interest coverage. For countries with lower borrowing rates, the cost to carry debt will be dramatically lower.

From a yield standpoint, real interest rates on French debt are already higher than those of every country in this study other than Portugal, Ireland, Italy Greece and Spain. However, British bonds have a real yield that is more negative even than that of the United States in the midst of a global flight to quality. In the absence of a renewed commitment to quantitative easing by the Bank of England, we think that these yields are too low, and would caution investors in both British and French bonds.

Perhaps the most interesting positive story here, though, is in the strong economic fundamentals of some of the countries with lower ratings: China, South Korea, Brazil, even Russia (although again the importance of political risk comes to mind, as do the economic risks of countries with heavy reliance on commodity export, both of these sources of risk have led to sovereign defaults in the past). The economic fundamentals look much better for these countries than in the developed world, although unfortunately their real yields don't look attractive at this time due to high levels of local inflation. If a moderate global slowdown should result in lower inflation in emerging markets, the higher yields and relatively healthier financial conditions available in these countries may make investment in these bonds look quite attractive.

(continued on the next page)

	<i>S&P Rating</i>	<i>Deficit/Surplus as % of GDP</i>
Ireland	BBB+	-32.4
Greece	CC	-10.5
United Kingdom	AAAu	-10.4
United States	AA+	-10.3
Spain	AA+	-9.2
Portugal	BBB-	-9.1
Japan	AA-	-7.4
France	AAAu	-7
Eurozone		-6
Netherlands	AAAu	-5.4
India	BBB-u	-5.1
Italy	A+u	-4.6
Australia	AAAu	-4.3
Belgium	AA+u	-4.1
Russia	BBB+	-3.9
Canada	AAA	-3.6
Germany	AAAu	-3.3
Singapore	AAA	-2.6
China	AA-	-2.5
Switzerland	AAAu	-1.3
South Korea	A+	-1.1
Sweden	AAA	0
Brazil	BBB+	2.2

	<i>S&P Rating</i>	<i>Public Debt as % of GDP</i>
Japan	AA-	220.3
Greece	CC	142.8
Italy	A+u	119
Singapore	AAA	97.2
Belgium	AA+u	96.8
Ireland	BBB+	96.2
United States	AA+	93.2
Portugal	BBB-	93
Eurozone		85.1
Canada	AAA	84
Germany	AAAu	83.2
France	AAAu	81.7
United Kingdom	AAAu	80
India	BBB-u	69.2
Brazil	BBB+	66.1
Netherlands	AAAu	62.7
Spain	AA+	60.1
Switzerland	AAAu	55
Sweden	AAA	39.8
South Korea	A+	30.86
Australia	AAAu	22.3
China	AA-	17.7
Russia	BBB+	9.9

	<i>S&P Rating</i>	<i>Current Account as % of GDP</i>
Greece	CC	-10.5
Portugal	BBB-	-9.9
Spain	AA+	-4.5
Italy	A+u	-3.3
India	BBB-u	-3.2
United States	AA+	-3.2
Canada	AAA	-3.1
Australia	AAAu	-2.6
United Kingdom	AAAu	-2.5
Brazil	BBB+	-2.3
France	AAAu	-2.1
Ireland	BBB+	-0.7
Eurozone		-0.4
Belgium	AA+u	1.4
South Korea	A+	2.8
Japan	AA-	3.6
Russia	BBB+	4.9
China	AA-	5.2
Germany	AAAu	5.7
Sweden	AAA	6.3
Netherlands	AAAu	7.7
Switzerland	AAAu	14.2
Singapore	AAA	22.2

	<i>S&P Rating</i>	<i>Real GDP YoY (%)</i>
Greece	CC	-5.5
Japan	AA-	-1
Portugal	BBB-	-0.6
Spain	AA+	-0.1
Ireland	BBB+	0.1
Singapore	AAA	0.5
United Kingdom	AAAu	0.7
Italy	A+u	0.8
Australia	AAAu	1
United States	AA+	1.6
Canada	AAA	2.2
France	AAAu	2.2
Belgium	AA+u	2.5
Eurozone		2.5
Switzerland	AAAu	2.5
Netherlands	AAAu	2.8
South Korea	A+	3.4
Russia	BBB+	4.1
Brazil	BBB+	4.17
Germany	AAAu	4.9
Sweden	AAA	5.3
India	BBB-u	7.8
China	AA-	9.5

	<i>S&P Rating</i>	<i>10 Year Yield Today (%)</i>	<i>10 Year Yield 1Yr Ago</i>	<i>Central Bank Rate</i>	<i>CPI YoY</i>	<i>Real 10 Year Yield Today (%)</i>
Greece	CC	15.583	10.36	1.5	2.4	13.183
Portugal	BBB-	10.456	5.155	1.5	3.4	7.056
Ireland	BBB+	9.781	5.325	1.5	2.7	7.081
India	BBB-u	8.21	7.837	7	8.62	-0.41
Italy	A+u	5.022	3.807	1.5	2.7	2.322
Spain	BBB-u	5.006	4.107	1.5	3.1	1.906
Australia	AAAu	4.457	5.046	4.75	3.6	0.857
Russia	BBB+	4.435	5.678	8.25	9	-4.565
Belgium	AA+u	4.145	3.035	1.5	3.75	0.395
China	AA-	3.94	3.31	6.56	6.5	-2.56
South Korea	A+	3.92	4.8	3.25	4.7	-0.78
Brazil	BBB+	3.735	3.633	12.5	6.87	-3.135
France	AAAu	3.05	2.722	1.5	2.1	0.95
Netherlands	AAAu	2.636	2.642	1.5	2.6	0.036
United Kingdom	AAAu	2.51	3.143	0.5	4.2	-1.69
Canada	AAA	2.451	2.972	1	3.1	-0.649
Eurozone		2.318	2.428	1.5	2.7	-0.382
Germany	AAAu	2.316	2.428	1.5	2.4	-0.084
United States	AA+	2.1958	2.6814	0.25	3.6	-1.4042
Sweden	AAA	2.088	2.49	2	3.1	-1.012
Singapore	AAA	1.63	1.87	0.01	5.2	-3.57
Switzerland	AAAu	1.148	1.251	0	0.5	0.648
Japan	AA-	1.042	1.019	0.1	0.2	0.842

	<i>S&P Rating</i>	<i>Unemployment</i>
Spain	BBB-u	21
Greece	CC	15.8
Ireland	BBB+	14.3
Portugal	BBB-	12.2
Eurozone		9.9
France	AAAu	9.7
India	BBB-u	9.4
United States	AA+	9.1
Sweden	AAA	8.8
Italy	A+u	8
United Kingdom	AAAu	7.7
Belgium	AA+u	7.4
Canada	AAA	7.2
Germany	AAAu	7
Russia	BBB+	6.57
Brazil	BBB+	6.3
Netherlands	AAAu	5
Australia	AAAu	4.9
Japan	AA-	4.6
China	AA-	4.1
South Korea	A+	3.3
Switzerland	AAAu	3
Singapore	AAA	2.1