



## *Better in Time*

US stock markets closed on November 20th at their lowest levels for the year thus far, with the Dow Jones Industrial Average ending the day at 7552.29 points and the S&P 500 Index finishing at 752.44 points. Since then the market has rallied about 13% on average which has left US equity investors wondering if the worst is behind them.

Since the stock market's peak in October 2007, US stock investors have endured wealth erosion of epic proportions amounting to in excess of \$10 trillion as measured by market capitalization. The U.S. financial crisis, triggered by the bursting of hugely inflated real estate and credit bubble, led to a veritable recession in that country which sparked a global panic and the ensuing worldwide economic slowdown.

The United States government has acted aggressively in attempting to resolve the financial crisis. In terms of direct assistance to the ailing US financial firms it proposed a \$700 billion financial bailout rescue plan of which about half has already been used. Among the measures implemented with these funds was a bail out of American International Group Inc. (AIG) at the staggering cost of \$125 billion. They also covered JP Morgan Chase & Co.'s (JPM) bet on taking over Bear Stearns to the amount of \$29 billion. The state also stepped in to support the Federal Deposit Insurance Corp. (FDIC), Fannie Mae (FNM) and Freddie Mac (FRE).

To allay investor fears and prevent a run on the banks, the US government also agreed to guarantee depositors at all banks up to a tune of US\$250,000, as well as money market funds and came forward to purchase commercial paper that no one else was willing to.

About 70% of the US Gross Domestic Product (GDP) is generated by consumer spending, and as such, the government also tried to encourage consumers who had 'tightened their belts' to return to spending by distributing \$150 billion worth of stimulus rebate checks to families across the country. Currently, the soon-to-be Obama - led Democratic administration is considering providing yet another stimulus package.

In a bid to prevent massive layoffs and keep unemployment at bay, a motion was proposed for the government to lend \$15 billion to the struggling 'big three' US automakers, General Motors, Ford and Chrysler. This with the firm intent of keeping workers employed and finding jobs for those who have lost theirs as stability in the labour market remains a critical element to a swift economic rebound.

The US government is prepared to run a huge deficit to stimulate their economy. Some analysts are forecasting the total deficit to come up to US\$1.5-trillion in 2009 which represents about 11 per cent of the country's \$14-trillion GDP. In the long-term this massive increase in the money supply may come back to haunt the economy in the form of inflationary pressures,

but this is left to be seen. The main priority of the state right now however, is revitalizing the economy.

From the market's 2007 peak through December 1, 2008, Standard & Poor's 500 Index plummeted almost 48%. This decline can rival some of the most severe stock market slumps in history. Still, the stock market is likely to trade flat to downward and remain volatile at least through the first quarter of 2009, as investors dwell on the dismal earnings environment amidst ongoing negative sentiment towards the US financial system. Adding to investor anxiety would be the unemployment situation which is expected to worsen in the first quarter of 2009. Many analysts including renowned investor Warren Buffet are not expecting to see signs of a US economic recovery before mid-2009. The economy may contract for at least the first two quarters of 2009, followed by moderate growth for the remainder of the year.

Still, after a shaky start, the U.S. stock market could post a small gain by year-end 2009. Such an event is indeed possible despite all the bad economic news as stock markets are typically a leading indicator of economic conditions. As such, shares are likely to rebound three to six months before the start of an economic recovery, even when incoming data suggests conditions are still bleak.

If President-elect Barack Obama and the new Congress move ahead with proposed infrastructural projects and initiate other measures to stimulate the economy, there may be a short to medium-term rally in commodities like oil (due to increased energy demand) and basic construction materials (for use in infrastructure projects).

The dismal picture painted for the US economy in 2009 is indeed likely to become a harsh reality for US citizens. There is hope however, that with suitable government initiatives to shore up employment and encourage consumer spending, corporate profits should start to improve in 2010, and the stock market, being forward-looking, could start a slow, sustained recovery in the second or third quarter of 2009. In short, the US recession may not be as long and drawn out as some doom and gloom scenarios seem to suggest as with sufficient fiscal stimuli the economy will get better in time.

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### ***Current Happenings in Local and International Markets:***

- Global crisis hits Agostini's rights issue
  - First Caribbean affected by global financial crisis
  - Browne: TT reserves strong
  - Canada's central bank cuts rate
  - US trade deficit continues to rise
  - Bank of America to Cut 30,000 to 35,000 Positions
  - Ex-Nasdaq chairman arrested on \$50 billion fraud charge in NYC
  - UK pound falls to new record low against euro
  - Worst Spending Slump Since 1942 Extends 'Scary' U.S. Recession
  - U.K. Economy May Shrink Most Since 1990, Niesr Says
  - U.K Manufacturing Slides, Housing Sales at Lowest Since 1978
  - Sony Will Cut 16,000 Jobs as Recession Curbs Demand
  - HSBC Says Hong Kong Banks May Have Room to Cut Rates
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**Table 1: Regional Market Performance (as at 11 December 2008)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	853.69	-0.81	-5.93	-13.07	-12.27
All Trinidad	1,164.81	-0.24	-4.68	-2.99	-2.85
JSE Index	82,183.89	-0.91	-7.89	-23.88	-21.95
JSE Select	1,958.31	-2.26	-20.73	-33.14	-32.38
All Jamaica	73,423.32	-1.87	-19.03	-31.24	-30.37
BSE Composite	936.15	-4.49	-5.82	-9.01	-8.21

**Table 2: International Market Performance (as at 11 December 2008)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	873.59	3.36	-2.82	-40.51	-40.88
Nasdaq Composite	1,507.88	4.31	-4.62	-43.15	-43.15
Dow Jones Industrial	8,565.09	2.25	-1.48	-35.43	-36.24
German Dax	4,767.20	4.45	0.12	-40.91	-40.48
FTSE 100	4,388.69	5.41	3.34	-32.03	-32.86
Nikkei 225	8,720.55	10.05	-1.01	-43.03	-45.65
Hang Seng	15,613.90	15.57	11.20	-43.86	-46.58
DJ Eurostoxx	2,485.39	4.93	0.07	-43.51	-44.15

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