



Obama and the Road Ahead

Barack Obama was elected the 44th President of the United States, opening a new chapter in the country's history as the first African-American to hold the world's most important job. This historic event has coincided with the one of the worst financial crises and economic recessions faced by the US since the Great Depression era. Unfortunately, President-Elect Obama will have little time to bask in the afterglow of his success as investors and political pundits alike begin to speculate on Obama's ability to cure the economy's economic woes as quickly as possible. While it will be some time before Obama begins enacting economic policy, it is useful to look at his stance on major issues as revealed through his campaign.

The highly-leveraged American Consumer – President-Elect Obama's immediate focus will be on cushioning those consumers who will continue to face rising unemployment, tight credit conditions, unaffordable mortgages and declining home values. In response, Obama has proposed a large fiscal stimulus package worth US\$50 billion. This will take the form of grants, infrastructure spending to create jobs, tax cuts for lower income groups and tax credits for companies which create jobs. To help stem the flow of foreclosures, Obama has proposed tax credits and ninety day moratoriums on potential foreclosures.

If implemented, this does not bode well for the burgeoning US current account deficit which may well exceed US\$1 trillion. The cost of the bailout plan, proposed tax cuts and other stimulus measures can potentially have a negative impact on the strength of the US dollar. This proposed spending would also potentially raise the level of US national debt which affects Treasury yields and other sources of debt financing. The question of whether these measures will be enough to prop up aggregate demand in the short term still remains. Most economists are not very optimistic and are predicting a deep, prolonged recession.

Personal & Corporate Sector Taxes- Obama's stance on fiscal policy has been one which aims to restructure the taxation system by increasing tax cuts for the lower income groups as opposed to the middle and higher income groups. From the corporate tax perspective, his policy proposal remains along those themes. He plans to cut the tax rate to below 35% (compared to McCain who proposed cutting to 25%) and to act stringently to broaden the corporate tax base by reducing loopholes and cracking down on international tax havens. However, concerns remain about the feasibility of this plan given the economic slowdown which already has US companies cutting jobs and trimming fat. Obama may well have to reconsider this stance or at the very least delaying on implementing this fiscal measure when he takes office in 2009.

Healthcare Reform- Healthcare reform has been a major issue on Obama's agenda as his policies are aimed at making quality healthcare more affordable to the masses. He has proposed Universal health insurance coverage with mandates only for children while a subsidized premium will be provided for low and middle income households. The plan includes the

creation of a National Health Insurance exchange to allow individuals to purchase affordable insurance from public plans or approved private plans. Issuers would have to issue every applicant a policy and charge fair and stable premiums that will not depend on health status. Finally he proposes taxing firms which don't provide insurance. Overall, he aims to improve the efficiency of the sector through increased investment in information technology and promoting competition for drug and insurance companies among other things. From an investment perspective, this bodes well for healthcare providers. This combined with the fact that healthcare is traditionally a defensive play emphasizes our favorable outlook for healthcare related investments in the short to medium term.

Trade Policy- Obama has proposed labor and environmental standards in trade agreements. To counteract the undervalued Yuan, he has proposed increasing duties on Chinese goods. In addition to this, he has called for greater scrutiny of the investment actions of Sovereign Wealth Funds. Obama's trade policies have a decidedly protectionist touch which could exacerbate the ongoing global slowdown. The world is becoming increasingly integrated in terms of global trade and a reluctant stance on issues of financial globalization and foreign investors may not be possible given the need for continued bilateral trade relations to keep the US economy afloat.

Energy Policy and Climate Change- Obama has called for increased investment in energy technology and renewable energy with tax credits. Further he may tax the windfall profit of oil companies. He has also proposed mandatory targets for emission cuts with cap-trade and coal-to-liquid fuel programs. The US will also be taking a more active role in the global climate change pact to replace the Kyoto Protocol. This is a welcome stance by Obama and bodes well for several alternative-energy investment companies. These include a number of solar energy companies such as Sunpower Corp (SPWR), Solar Fund (SOLF) as well as a number of alternative energy funds such as Powershares Wilderhill Clean Energy Portfolio (PBW). However, we temper this view given the recent drastic correction in oil prices, the worsening economic outlook and the expected increase in Government expenditures which may reduce some of the political will around cap and trade policies as well as reducing pressure to begin offshore drilling.

Foreign Policy- Obama's foreign policy vision has centered on multilateralism and improved diplomacy to further US interests at a time when the U.S. military is engaged in two wars. Obama has pledged to withdraw troops from Iraq within 16 months of taking office and counter resurgent al-Qaeda and Taliban forces in Afghanistan. Meanwhile, economic and not political ties may continue to define the U.S. relationship with key Asian economies, including China, its largest creditor.

While the world celebrates Obama's victory, his administration's position on these key issues will have significant implications for financial sector regulation, energy policy and trade policy just to name a few. The US economy is facing one of the most difficult periods in its history and a strong leader is a key to its survival. The world awaits Obama and his team as he takes up the challenge of navigating the US economy through these difficult and uncharted waters.

Current Happenings in Local and International Markets:

- All T&T index regains some lost ground
- BICO brings new frozen goods range to market
- JMMB posts handsome profits of J\$1.1 billion for six-month period
- Angostura looks to export one million cases of Appleton rum a year to the US
- Margin calls weaken weaken Jamaica dollar - Currency slides 5% in a month
- Lehman Bros hits NCBJ
- Business leaders warn Obama's early focus won't help Jamaica
- Citigroup, Goldman Said to Begin Eliminating Jobs
- S&P 500 Profit Estimates Slashed After Third-Quarter Misses
- Bank of England Cuts Key Rate by One Third to 3%
- Australia Cuts Key Interest Rate by 75 Basis Points
- India Exports Slow as Global Crisis Curtails Demand
- BNP Paribas Third-Quarter Net Falls 56% on Provisions
- Wells Fargo Raises \$11 Billion in Stock for Wachovia
- Cuba says economy to grow 4 percent this year
- Wall Street's Top Executives Face 70% Bonus Cuts, Study Says
- GM reports \$2.5B 3Q loss, says running out of cash
- Jobless rate bolts to 14-year high of 6.5 percent
- Ford announces \$129M 3Q loss, burns \$7.7B in cash

Table 1: Regional Market Performance (as at 6 November 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	917.61	-0.76	-9.89	-6.56	-3.36
All Trinidad	1,241.74	-0.74	-8.80	3.42	4.98
JSE Index	94,146.38	0.71	-4.42	-12.80	-6.52
JSE Select	2,534.33	4.60	-3.84	-13.47	-4.53
All Jamaica	92,932.77	3.78	-4.25	-12.97	-4.69
BSE Composite	998.54	-0.10	-3.87	-2.94	-2.16

Table 2: International Market Performance (as at 6 November 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	904.88	-5.16	-14.38	-38.37	-40.48
Nasdaq Composite	1,608.70	-5.29	-13.65	-39.35	-43.06
Dow Jones Industrial	8,695.79	-5.28	-12.65	-34.44	-36.35
German Dax	4,813.57	-1.14	-10.64	-40.33	-38.50
FTSE 100	4,272.40	-0.45	-6.90	-33.83	-34.02
Nikkei 225	8,899.14	-1.45	-15.03	-41.87	-45.23
Hang Seng	13,790.04	-3.77	-17.93	-50.42	-53.16
DJ Eurostoxx	2,542.04	0.55	-11.40	-42.22	-42.32

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