



Where Has The Year Gone?

It's that time of the year again, when the Christmas tree is up, our homes are decorated, the malls are filled with lavish Christmas decorations, radio stations fill the air with happy and joyous Christmas songs and we are probably all busy making preparations for the holidays. It is at this time of the year, we tend to appreciate our families more than usual and we take stock of how our year was spent and we think about the resolutions that we would like to make for the upcoming year. For some of us, this year may have brought us happiness, sorrow, disappointment, maybe some transition in our lives or it may have been uneventful, just another year gone by.

The year 2009, started off in turmoil as the manufacturing sector globally had declined. According to JP Morgan's global manufacturing index, there was a 'severe' 17% annualized contraction in global activity. Manufacturers around the world had already begun to cut job in an effort to conserve cash. Steel companies like ArcelorMittal, US Steel Corp and AK Steel were working at 43% capacity. The S&P 500 Index was down about 34.5% for 2008. The Volatility Index (VIX) had increased from 26.2 at the start of January 2008 to 40 as at the end of 2008. Globally, central banks were desperately slashing interest rates and using stimulus packages to prevent their economies from sliding into further recession. Policy interest rates in the US were slashed from 3% at the start of the 2008 to a mere 0.25% by the end of 2008 while in Europe rates were cut from 4.5% to 1% by the start of 2009. The outlook for 2009 looked grim. Let us recollect some of the major events that affected the international market for 2009 thus far:

Stimulus packages and government bailouts

TARP

The TARP (Troubled Asset Relief Programme) was initiated by the US government in October 2008 in order to loan emergency funds to banks with 'troubled assets', such as, loans on real estate and other mortgage-related assets and securities based on these assets, saw financial institutions receiving about \$700 billion in such funds. For 2009, we would have seen companies such as Citibank and Bank of America each receiving an additional \$20 billion in TARP funding bringing their total receipt to \$45 billion each. Due to restrictions placed on executives' compensation, equity purchase option and compliance policies, companies such as Bank of America, JP Morgan Chase, and American Express quickly sought to repay their TARP funds.

Cash for Clunkers

This was ran by the US government between July 01 2009 to 26 August 2009 at a cost of \$3 billion dollars. The aim of this programme was to get US consumers to purchase more fuel efficient cars while trading in less fuel efficient ones, thereby

promoting auto sales and ultimately stimulating the economy. This program led to a 19.4% increase in sales for Toyota, 17.6% for General Motors, 14.4% for Ford, 13% for Honda and 8.7% for Honda. This initiative was not very successful as its costs vastly outweighed the benefits by \$1.4 billion and it was the Japanese and Korean manufacturers that increased their market share at the expense of US manufacturers.

Fall of the US Dollar?

To fund these stimulus packages, the US government, through the Federal Reserve, has been increasing its money supply. It is estimated that the money supply (notes, coins and central bank reserves less dollars held abroad) grew by 14.3% from Sept. 08 to Sept. 09. At the same time, the debt-to-GDP level has risen from 51% in 1988 to currently about 73.6% of GDP. It is projected that the debt level will continue to increase to about \$13 trillion by 2013. As a result of this; there have been concerns about the ability of the US to fulfill its interest payment obligations. This has been causing pressure on the US dollar as investors are seeking alternative investments like gold, copper or a basket of currencies as opposed to just one main currency. This year we would have seen that US dollar's value which can be measured by Bloomberg's Dollar Bullish Sentiment Index had fallen to 30.8 as at 18 September 2009 from a high of 68.86 a year ago. The lowest level this index reached was in March 2008 when it fell to 30.3. In stark contrast to the dollar, gold reached a record high of \$1133/oz on 16 Nov. 2009 as investors sought a hedge against the dollar.

Healthcare Reform

In some quarters, the present healthcare system in the US was deemed inadequate, in that it failed to address the needs of everyone and it was too costly to the average citizen, thereby excluding citizens from accessing this vital service. It was estimated that healthcare spending accounts for about 17% of GDP and any reform of this sector would have a major impact on the economy. To transform the health sector it would cost an already debt-laden US government about \$1 trillion over a decade. Proposals made thus far, places insurance mandates on employers and employees, sets prices and coverage, establishes an option to be run or subsidized by the state, and to pay for all of this taxes would have to be increased. The increase in taxes, which should take effect in 2011 and may range from 1% - 5.4%, depends on the income level of the insured. These are substantial changes that would affect the type of insurance products purchased, kind of service provided and the cost to companies and individuals. Subsequently, all of this would affect the earnings of companies in this sector. This is why Fitch rating agency has a negative outlook for this sector in 2010.

As the year draws to a close, the US economy has shown small signs of recovery. Credit Suisse raised their GDP forecast for this quarter to an annualized rate of 4.5% up from 3.5%. In addition to that, unemployment fell slightly by 0.2%, the trade gap closed by 7.6% in October, export levels were up 2.6% and sales of US retailers climbed by 1.3% in November. We would have also seen that the S&P 500 index is up about 33%, the VIX is down to 22.32. If these trends continue, it is our expectation that 2010 would be a better year for investors.

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