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Stock Market Weekly

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Traders in for a Third Quarter Thriller

Most global equity indices were up for the second quarter of 2009 amidst increasing hopes that the worldwide recession would not be as bad as expected. Additionally, crude-oil prices registered their biggest quarterly percentage increase since 1990. Despite popular opinion that the US would lead the global recovery it was emerging market stock indices that posted off-the-wall gains. The performance was so great that none of the major stock indices was able to beat it.

Credit market conditions, which had been at the heart of the financial crisis, continued to ease. Many large financial institutions were better able to access funds from the capital markets to shore up their balance sheets. Investors therefore started to shift out of U.S. government debt as they became more comfortable holding riskier assets.

While the US S&P 500 stock index was up some 15% in the second quarter, Brazil's Bovespa was up 25.75%, Russia's Micex was up 25.69% and China's Shanghai Composite was up 24.69%. India was the best performer of the emerging nations with the Sensitive Index (BSE) up some 49.29%.

On May 18th for the first time in history, Indian stock markets hit two stock market upper circuits in one day. The markets were locked at the 15% upper circuit and trading was halted for two hours. Subsequently, trading on both the BSE and the NSE (National Stock Exchange of India) was halted for the entire day as markets hit a 20% upper circuit, after re-opening for trade. Stock market sentiment was driven by the fact that the ruling Congress party won the country's election by the most seats since 1991. The victory was seen as ushering in a period of stable government policy thereby increasing business and stock market confidence.

Many people would remember the time when General Motors (GM) was a giant in the auto-industry. GM has held a spot on the Dow since 1925. The once seemingly invincible GM had its shares taken off the New York Stock Exchange and the Dow Jones Industrial Average Index in June however, in lieu of its filing for bankruptcy protection. GM's place on the Dow will be given to the communications and information technology company Cisco Systems Inc. (CSCO). GM emerged from bankruptcy protection on the 10th of July after transferring the bulk of its assets to a new, leaner company to be owned by the US government.

Another US icon Citigroup is in the midst of a substantial restructuring in which the US government will hold a large and ongoing stake. Citigroup has shown a continued reliance on and acceptance of government 'bailout' funding. This, alongside its sale of 51% of its Smith Barney division to joint venture partner Morgan Stanley (MS), prompted its stocks' removal from the Dow.

The second quarter saw the laying of charges against and sentencing of some smooth criminals. On June 19th the US Justice

Department charged Texas billionaire Stanford and some of his top executives with wire fraud, mail fraud, and conspiracy to commit securities fraud. The group's Ponzi scheme to the tune of USD 7 billion was conducted via advising investors to purchase certificates of deposit from the Antigua-based Stanford International Bank.

Ponzi schemes typically promise investors high rates of return with little risk. In the scheme, returns are generated for older investors by acquiring new investors. The scam actually grants the promised returns to earlier investors, provided there are more new investors. Schemes of this nature usually fall apart however, when new investments are no longer forthcoming. Nearly 30,000 investors in about 113 countries were caught up in Stanford's grand scheme.

On the 30th of June 2009 a US judge rejected Bernard Madoff's plea for leniency, effectively sentencing the 71-year-old swindler to a life imprisonment term of a maximum of 150 years. Conservative estimates place total losses so far at USD 13.2 billion however Madoff has been reported as telling his sons in December of 2008 that the scheme was valued up to USD 50 billion.

The S&P 500 is currently trading at a price-to-earnings multiple of 15.7 times expected 2009 operating earnings, which is close to the historical average. After the run-up in prices over the second quarter, US equities are thus no longer particularly cheap nor are they at a dangerous overvalued level. At current valuations therefore, neither a strong sell signal nor a strong buy signal has been generated. If worse than expected economic news continues to come in however, world stock markets are likely to trend lower.

For investors to want to be starting something in the way of significant stock buying during the next half of 2009 they will need convincing evidence not only that the economic decline has slowed but that government-sponsored measures have been enough to heal the world economy by year-end. With companies set to report half-year earnings and provide outlooks soon, stock market activity may be such that traders are in for a third quarter thriller.

Table 1: Regional Market Performance (as at 9 July 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	780.60	0.19	0.20	-7.39	-32.26
All Trinidad	1,080.00	0.03	0.79	-6.47	-28.55
JSE Index	80,692.95	-0.78	-2.41	0.67	-26.73
JSE Select	1,802.62	-0.02	-3.30	-9.18	-40.82
All Jamaica	66,413.06	-0.41	-3.08	-10.25	-40.14
BSE Composite	844.02	0.05	0.25	-8.24	-21.67

Table 2: International Market Performance (as at 9 July 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	882.68	-1.53	-6.34	-2.28	-29.08
Nasdaq Composite	1,752.55	-2.45	-5.78	11.13	-21.58
Dow Jones Industrial	8,183.17	-1.18	-6.62	-6.76	-26.59
German Dax	4,630.07	-1.87	-7.36	-3.74	-27.50
FTSE 100	4,158.66	-1.79	-5.59	-6.21	-24.79
Nikkei 225	9,291.06	-5.92	-5.07	6.22	-28.82
Hang Seng	17,790.59	-2.13	-1.48	23.65	-18.41
DJ Eurostoxx	2,313.87	-2.35	-6.68	-5.61	-30.77