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MARKET REPORT
FIRST QUARTER 2009

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2009 started with a bang as the world bid farewell to a tumultuous 2008, where Global equities fell 40% and Emerging Market equities lost more than 50%. Markets in the US opened with a 3% gain, amidst what is called the "Obama Bounce". Americans and the world waited in anticipation as to what the incoming Presidency would bring. There were promises of tax-cuts and trillion-dollar, stimulus packages and job creation programmes. Apart from the TARP (Troubled Assets Relief Program), the world was introduced to TALF (Term Asset-Backed Securities Loan Facility) and P-PIP (Public-Private Investment Program). The former, a loan facility for asset-backed securities originating from auto, student or credit card loans, and the latter, a joint-venture between the government and the private sectors, to soak up toxic assets to the tune of US$1 trillion. Other measures contemplated, included the idea of a "Bad Bank", which would swallow up the toxic assets so that viable banks can start fresh.

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Reality, however, quickly set in.

More than one million Americans had filed for bankruptcy in 2008, and 1.4 million were expected to do so in 2009. Elsewhere in the world, India, had its own Enron story. Satyam Computer Services Ltd., which was reputed to be the fourth largest software company in the world, with household names as clients, shocked the world when its CEO confessed to cooking the accounts. The scandal rocked the markets, causing the Sensex to plunge 7%.

The Royal Bank of Scotland had its biggest loss ever – US$34.7 billion in 2008. Singaporeans will remember that they took over ABN AMRO Bank, and the RBS initials were on race cars for the world's first, Formula One night race.

The Irish government seized its three largest banks. Ireland was fast becoming another Iceland. The Bank of England cut its savings rate to 0.5%, the lowest in its 315-year history. The UK was officially in its worst recession.

By the end of January 2009, the Dow had fallen 8.8%. This was bad news for investors who recalled that in 60 out of 80 years, the Dow's January performance determined its direction for the entire year. It fell 4.6% in January 2008, and by year end, it was 34% off.

AIG lost US$6 billion in Fourth Quarter 2008, bringing the total for the year to US$100 billion. On 6th March 2009, Citigroup became a penny stock and traded below US$1 for the first time. General Electric had its AAA status downgraded. General Motors lost its Chief Executive, unceremoniously fired, not by its Board, but by the man sitting in the White House. Capitalist America held their collective breaths.

The Dow continued its downtrend in February, falling below the psychological 8,000 mark. From there it continued its slide to below 6,600; numbers last seen in April 1997. Was this going to be America's equivalent of Japan's lost decade?

Amidst all the carnage, the US$ defied all odds and strengthened against other currencies, largely because there were no other alternatives. Neither the Euro nor the Yen seemed ready to take over as the world's reserve currency. First Russia, then China, and the IMF, called for the revival of the Special Drawing Rights as a possible alternative. China, in particular, was sabre-rattling, sometimes threatening, and at other times, almost pleading for the US to do something. After all, some estimates have China holding more than one trillion of its reserves in US dollars.

Amazingly, despite the unemployment figures and a shrinking world economy, the Dow started its climb from its March lows. Perhaps it was a case of so much bad news that the markets were looking for any reprieve. Perhaps it was the right signals coming from Washington. It could also be the news that Citigroup actually reported a profit in the first two months of 2009. The Dow went on to pile up gains of 22% by 2nd April, technically the start of a bull market! For the whole quarter, the Dow was down 13%.

Meanwhile, China became the world's third largest economy. Its state-owned aluminum producer closed a US$19 billion deal to buy part of Rio Tinto. China's stock market shot up 30% in the first quarter.

Global equities and Emerging Market equities fell substantially in the first two months of 2009 but made a remarkable recovery, since 9th March. Both gained more than 20%. The same goes for Properties and Commodities. The Sensex also gained more than 20% from its lows in the early part of March.

The question, of course, on everyone's mind, "Is this the real thing or another bear trap?" "Have we seen the bottom?"

Aside from the stimulus packages and various schemes to clean up the financial mess, the FASB (Financial Accounting Standards Board) has relaxed the mark-to-market rules. Short-selling is again on the radar of regulators. Hedge fund managers, long the bane of regulators, are now being courted to join hands with the government in bidding for distressed assets. All these have brought some cheer to markets, desperate for signs that things may turn around.

That said, there is still much uncertainty in the markets. The amount of liquidity circulating in the world today is a cause for concern, though that is probably tomorrow's problem. Protectionism may rear its ugly head as countries seek to look after their own interests. Already, cracks have begun to appear in the G-20. North Korea went ahead with launching its rockets. Back home, uncertainty continues to plague regional politics.

All these are a reminder that things can go wrong pretty quickly. Markets seem to be improving but are still on high dependency. Big-name financier, George Soros, thinks they are still on life-support. Nevertheless, the more adventurous are starting to take small bites. Investing small amounts on a regular basis represents a viable strategy in an uncertain market. Among Emerging Markets, Asia is probably in a better position to take advantage of the recovery when it eventually comes.

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