

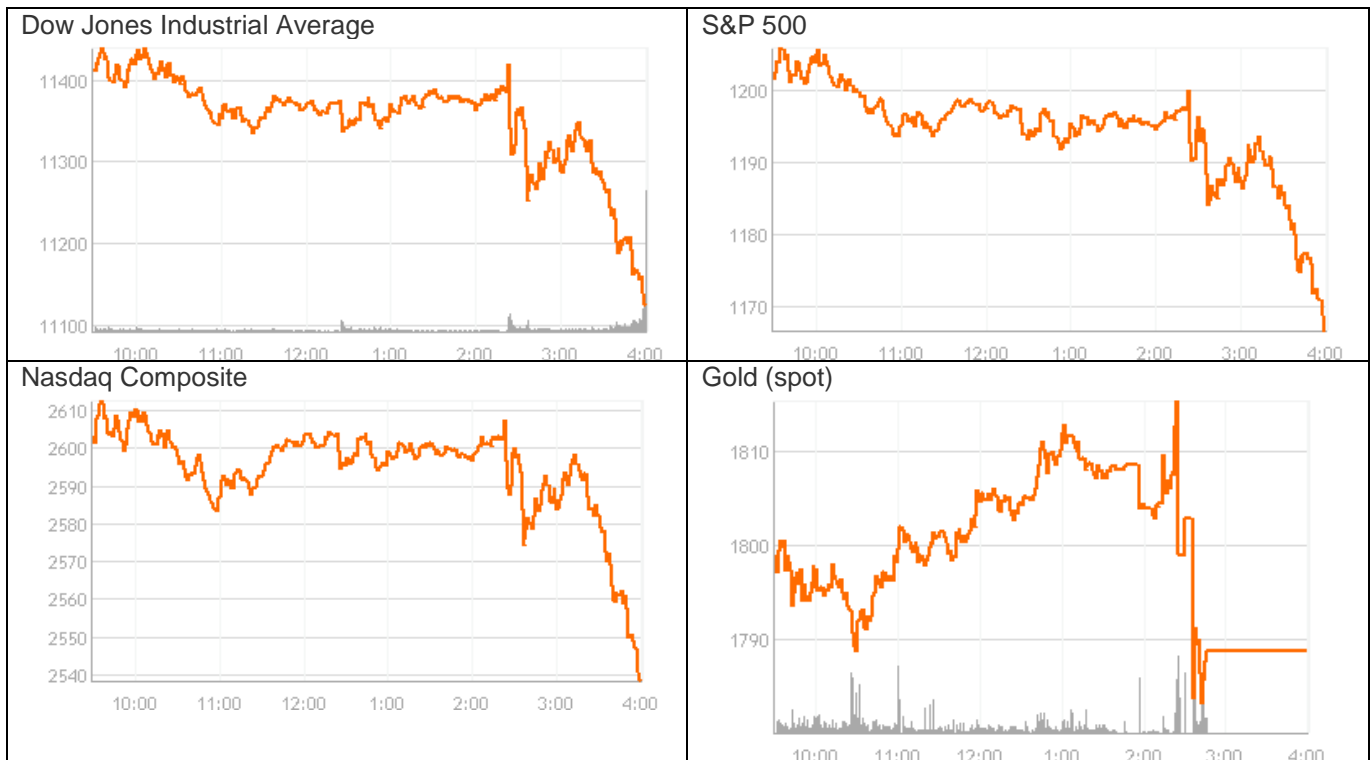


AMG News Flash

22nd September, 2011

Fed offers OT but no QE

To begin, OT stands for 'Operation Twist' and QE stands for 'Quantitative Easing'. Specifically, the Federal Reserve said, after members of the FOMC met for two days, it would "twist" US\$400 billion of its US\$1.66 trillion in Treasury holdings into longer-dated debt. While the amount came in more than the US\$300 billion consensus expectations from analysts, markets were clearly disappointed that no QE3 was announced. Below are charts of how various US benchmarks as spot gold traded overnight.



In percentage terms, the Dow fell 2.49%, while the S&P500 plunged 2.94% and the Nasdaq Composite lost 2.01%.



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As for Asia Pacific markets, all of them are in red as of this writing. Below is a snapshot of how regional markets behaved at around noon time today.

Symbol	Name	Last Trade	Change
^AORD	All Ordinaries	4,042.80 12:28AM EDT	↓ 110.80 (2.67%)
^SSEC	Shanghai Composite	2,469.36 12:30AM EDT	↓ 43.61 (1.74%)
^HSI	Hang Seng	18,055.31 12:32AM EDT	↓ 768.86 (4.08%)
^BSESN	BSE 30	16,793.61 12:38AM EDT	↓ 271.54 (1.59%)
^JKSE	Jakarta Composite	3,484.82 12:48AM EDT	↓ 212.67 (5.75%)
^KLSE	KLSE Composite	1,400.67 12:18AM EDT	↓ 18.37 (1.29%)
^N225	Nikkei 225	8,558.87 12:28AM EDT	↓ 182.29 (2.09%)
^NZ50	NZSE 50	3,305.80 12:32AM EDT	↓ 3.03 (0.09%)
^STI	Straits Times	2,743.32 12:28AM EDT	↓ 48.47 (1.74%)
^KS11	Seoul Composite	1,794.15 12:28AM EDT	↓ 60.13 (3.24%)
^TWII	Taiwan Weighted	7,313.06 12:28AM EDT	↓ 222.82 (2.96%)

While some commentators blamed the market fallout on the Fed failing investor expectations for a third round of the so-called quantitative easing, there may be a more simple and rational reason that is the Fed's worsened forecast for the U.S. economy.

To be sure, even before the Fed's announcement, sentiment was already shaken after Moody's Investors Service cut the debt ratings of Bank of America Corp., Citigroup Inc. and Wells Fargo & Co. In addition, the rating agency also warned that bond investors shouldn't expect a full-fledged government bailout the next time a big bank runs into trouble. Moody's said it "believes there is an increased possibility that the government might allow a large financial institution to fail." The comment reflects the judgment that bondholders are likely to be forced to help pay for any future bank rescue by accepting lower repayment on their bonds.

The last nail to the coffin (so to speak) is the Fed's short but mind-blowing comment made after the meeting that there are "significant downside risks to the economic outlook, including strains in global financial markets." Adding to this is the decision to, as part of Operation Twist, take the proceeds from its maturing mortgage-backed securities and reinvest them in other mortgage-backed securities. For the past year, it has been reinvesting that money into Treasury bonds. Their decision to reverse that process shows the Fed not only do not see the economy improving anywhere near as fast as they had hoped but that Fed officials have become more concerned about the health of the mortgage and housing market. In recent months, senior Fed officials, including Mr. Bernanke, have been urging the rest of the government to find ways to support the housing sector.

To be fair, we are surprised about the belatedness of rather than the Fed's latest economic outlook itself. In our September Monthly Commentary, we have already stated our expectation for slower global economic growth in the next few years and how such a scenario will likely impact equity valuations and hence share prices. We have also



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advocated a more prudent approach to investing focusing more on safety, income and yield. Should investors missed receiving a copy of the said commentary or wish to learn more about our views in person, please contact your financial advisers who stand ready to assist.

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