AMG Market Commentary

October 2008

An Unforgettable Month

777, used to represent luck and fortune. This time, it is the points dropped on September 29th for the DJIA, as the month was filled with jaw-dropping, historic events in the quarter's final month.

The thrashing global shares took in the first half showed no signs of easing in the third quarter. Britain's FTSE 100 sank 13%, Japan's Nikkei Stock Average of 225 companies retreated 17% and China's Shanghai Composite Index fell 16%.

US: Negative

September ended with extreme chaos. Even experienced traders swore they had never seen anything like what has happened: when the US House of Representatives voted against a bill to bail out the banking system, the Dow plummeted more than 500 points in the space of 10 minutes before closing with a record point loss. The day ended with panic, fear and uncertainty.

Before that happened, back in August, Fannie Mae and Freddie Mac were taken over by the government. Then in September, Lehman Brothers Holdings Inc. filed for bankruptcy protection, Merrill Lynch & Co. was acquired by Bank of America, American International Group Inc. gave the government control of the company in return for an $85 billion loan, Washington Mutual Inc. was seized by federal regulators and the bulk of its operations sold off, and regulators orchestrated the sale of Wachovia Corp.

Meanwhile, Goldman Sachs Group Inc. and Morgan Stanley survived only as a result of large infusions of cash and a decision to give up the Wall Street investment-bank model, turning themselves into commercial banks and be regulated, but then can borrow from the Federal Reserve when needed.

The worst turmoil was in the credit markets, especially after Lehman filed for bankruptcy protection September 15th. Many investors bailed out of any debt that wasn't backed by the US government, and lending between banks ground to a halt. Corporate borrowing costs soared, if only businesses could borrow at all. As fear gripped global financial markets, major stock-market indexes in the US sank to what were then new lows for the year. Central banks were forced to inject cash into the system. Over 300 billion US dollars were injected into the capital market in 3 days time.

Europe: Negative

European shares experienced another quarter of losses, as signs of a slowdown in the region became unmistakable and investors worried about the state of its banks. The Dow Jones Stoxx 600 Index fell 12% and Germany's DAX dropped 9.2%. In a recent report, Citigroup Inc. analysts noted that by one measure, European banks had more stressed balance sheets than their US counterparts. Fortis joined the group, which needed help from others.

Japan: Negative
The Nikkei is down 26% this year, and foreign investors have yanked a net total of more than $31 billion out of Japanese shares, according to Standard Chartered Bank. As Aso is becoming the Prime Minister, certain tension is created on the Sino-Nippon relationship on the political level. The strong yen driven by settlement of carry trade had impacted the exporting companies.

China: Positive
Introduced 10 days before the National day, Beijing's unexpected support package included a pledge that government agencies would buy stock on the open market and lift their already controlling ownership in major listed banks and companies. Also, a tax on stock purchases was waived, while authorities reduced interest rates for the first time in six years in a move some officials said was partly aimed at steadying markets.
The action marked a strong demonstration of Beijing's desire to end the market turmoil that has risked undoing several years of effort to persuade China's all-important individual investors those stocks are worthwhile investments. Unfortunately, the melamine incident harmed the consumer staples sector before the week of National holiday.

Hong Kong: Neutral
The market suffered substantial losses as the drawdown of the mainland and also the tension caused by the Wall Street sparked continuous sell off. Property stocks were hurt by negative news on slow sales and financials were hit by negative outlook and also by the Lehman Brothers mini bond series incident.

Korea: Neutral
South Korea was promoted to developed-market status from advanced emerging, global index provider FTSE Group said on September 17th, in a move that will likely attract more fund flows into the Asian country. That puts it in the same group as Japan, Hong Kong, Britain, France, Australia, the US and about 20 other economies.

Brazil: Neutral
As commodity prices fell back from highs, the retreat slammed stocks that had benefited from their rise in the beginning of the year. Resource-heavy markets such as Brazil and Russia were two of the worst affected, down 24% and 47% respectively, in the quarter. When everybody fears that the world is over, emerging markets are not the first place you want to invest in. With the strengthening US dollars, significant outflow of capital occurred for the country.

Russia: Negative
The troubles with Georgia only served to inflame existing concerns about the political and economic climate in the country. Although Russian authorities eventually stemmed the share slide and pumped billions of dollars into the financial system, but it seems that Russia is an infinitely less interesting market than it was. In late September, Russia unveiled a $120 billion package of measures to restore confidence, including increased liquidity for banks, direct buying of stocks by the government and emergency tax cuts.

India: Positive
One exception to the overall trend of major losses in the quarter was India, which managed to finish the quarter down 4.5% after dropping 34% in the first half. As a large importer of oil, India is a beneficiary of lower energy prices.

Commodities: Neutral
The sudden drop in commodities prices during the quarter also revived debates over whether the bull run still exists. Most base metals and farm products are now down for the year. Nickel and tin led the drop, each losing more than 25% in the quarter; corn and wheat fell 32.7% and 60.9%, respectively, over the quarter. Gold fell 5.6% in the quarter. The precious metal at one time was down 20% but recouped most of the losses in the last few days of the quarter as safe haven, and ended at $874.20 an ounce. Oil futures ended the quarter at $100.64 a barrel on the New York Mercantile Exchange, down 28% in three months.

Hedge Funds: Positive
The suspension of short selling in some markets has given some smaller Long –short equity fund managers headaches. The volatile month, especially the final 2 weeks, had put pressure on managers and also the performance. Hedge-fund returns have declined almost 10% this year so far through last week, on average, according to performance data tracked by Chicago-based Hedge Fund Research.

Bonds: Neutral
The recent credit tension is spreading to the emerging market bonds, as credit in Russia, Brazil and Iceland are being tightened. With the strong US$ coming back, most emerging market bonds are suffering in performance. Values are starting to surface for the high yield bond markets, but investors should keep a close eye on the default rates.

Things to Look Forward:
The market has entered a panicking stage where massive selloffs occur across all markets. October will be another volatile month as the new season is starting for earnings results. Investors are advised with caution, as no one can tell how much further the market could go down. But 1 thing that is certain is that good values are appealing as we see the Intelligent Investor, Mr. Buffet is entering the market. Now is like the perfect time for investors to start their regular savings activities- Buy low, then sell high.

* All figures are collected from the articles of Wall Street Journal and The Economist.

Country-by-Country Derby
Third-quarter stock-market performance, based on the Dow Jones Global Indexes in U.S.-dollar and local-currency terms ranked by U.S.-dollar performance

Country	U.S. dollar	Local currency	Country	U.S. dollar	Local currency
Turkey	**−0.5%**	3.4%	Italy	**−23.2%**	−13.8%
Philippines	**−1.0**	3.8	Thailand	**−23.7**	−22.7
Peru	**−6.2**	−6.1	Sweden	**−24.1**	−12.1
U.S.	**−9.1**	−9.1	Czech Republic	**−24.6**	−13.3
Colombia	**−10.9**	2.0	Greece	**−24.9**	−15.7
Jordan	**−11.6**	−11.5	South Korea	**−25.0**	−13.4
Chile	**−13.1**	−9.1	Singapore	**−25.7**	−21.8
Switzerland	**−13.1**	−4.3	Netherlands	**−25.8**	−16.8
India	**−15.4**	−7.6	Hong Kong	**−26.6**	−26.9
Israel	**−15.9**	−13.0	Malta	**−27.0**	−18.1
Slovakia	**−16.1**	−5.7	Finland	**−27.5**	−18.7
Sri Lanka	**−16.6**	−16.2	Denmark	**−27.8**	−19.0
New Zealand	**−16.6**	−4.9	Australia	**−28.1**	−12.5
South Africa	**−16.8**	−12.0	Taiwan	**−28.8**	−24.5
Bahrain	**−18.5**	−18.5	Egypt	**−29.3**	−27.5
Japan	**−18.5**	−18.4	Slovenia	**−29.4**	−20.8
Mexico	**−18.7**	−13.3	Indonesia	**−29.6**	−28.0
Spain	**−18.9**	−9.1	Estonia	**−32.7**	−24.5
Kuwait	**−19.1**	−18.5	Cyprus	**−34.4**	−26.4
France	**−19.2**	−9.4	Lithuania	**−35.8**	−28.0
Malaysia	**−19.6**	−15.3	Pakistan	**−37.6**	−28.7
Poland	**−19.7**	−8.9	Brazil	**−38.1**	−25.0
Portugal	**−19.7**	−9.9	Austria	**−39.0**	−31.6
Argentina	**−19.9**	−17.1	Ireland	**−40.2**	−32.9
Belgium	**−20.5**	−10.8	Norway	**−41.1**	−31.6
Morocco	**−20.7**	−12.8	Iceland	**−41.8**	−22.6
Hungary	**−20.7**	−8.5	Latvia	**−41.9**	−34.4
Germany	**−21.0**	−11.4	Romania	**−43.4**	−34.7
U.K.	**−22.0**	−12.9	Bulgaria	**−43.8**	−37.2
China	**−22.8**	−23.2	Russia	**−47.8**	−42.8
Canada	**−23.1**	−19.4			

Source: Dow Jones Indexes

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