

Market View October 2008

The following summarises Stenham's view of global markets and potential future developments:

Outlook

- The banking system collapse and general credit crunch will affect the real economies across the globe, dampening industrial demand and resulting in a global recession. The western economies of the US, UK and Europe will be particularly hard hit;
- Waning consumer confidence in Western economies, caused by financial sector stress and falling property prices to slow demand for exports from Asian economies like China;
- Corporate earnings to suffer further downgrades with the earnings outlook remaining unclear over the next 12 months. Pressure on corporate expenditure will be exacerbated by a shortage of financing;
- Commodity prices will remain weak until the economic outlook becomes clearer, although still a good medium to long term investment;
- The primary focus of central banks and government to switch from controlling inflation to policies directed at renewing growth in their economies and fighting deflation. Further coordinated government intervention, involving additional interest rate cuts and unlimited liquidity injections to stabilise the markets can be expected;
- Further deleveraging in the markets, particularly a move away from investments linked to leveraged or illiquid strategies;
- In the medium term, unprecedented opportunities as a result of the dislocations that now exist;

United States

- A recession to last longer than expected as a result of continued falls in the property market and the high levels of consumer indebtedness;
- Unemployment to rise due to worker lay-offs in the financial, property, consumer related sectors, and will subsequently spread into the remaining sectors of the more general economy;
- Further write-offs in the financial sector, requiring additional capital injections by government;

United Kingdom

- A continued fall in the property market, leading to greater pressure on consumers;
- Facing similar conditions to the US, with rising unemployment and further financial sector consolidation;

Europe

- A slowdown in growth, with potential problems developing within the Euro area as a result of idiosyncratic market pressures within countries e.g. Ireland, Italy and Spain suffering more than Germany and France;

Emerging Markets

- Continued growth across the emerging market countries as a result of a growing middle-class and infrastructural spending, although contained by lower export demand. This downgrade in growth forecasts is linked to the credit crunch and the effects of globalisation;

Currency / Interest Rates

- A strengthening of the Asian currencies versus the US Dollar, Euro and Sterling;
- The willingness of governments to solve liquidity issues to result in further coordinated global interest rate cuts.

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