

Pegasus' View on the Markets Q4 2008
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"Credit buying is much like being drunk. The buzz happens immediately and gives you a lift.... The hangover comes the day after." ~Joyce Brothers

I guess this quote from Joyce Brothers sums up the feeling many of us have for the markets in 2008, having given us the biggest headache for many years.

The credit debacle of the financial world came home to roost last year and with it the unprecedented governmental support given to the global economies, including interest rates being slashed to lows not seen since the 1920's, major stimulus packages being announced and implemented and the Fed embarking on a policy of quantitative easing, flooding markets with liquidity. That said, and despite all this action we are still experiencing volatility in the markets and will do for some time to come, however these policy measures will eventually kick start the global economies.

As fears were still mounting concerning the stability of the global banking system, quarter 4, 2008 started with worldwide interest rate cuts on October 8th, however, this did not have much initial effect and it wasn't until the UK government announced plans to inject up to £37 billion into banks, which would part nationalise those that participated, that we saw some improvement.

We did not see the same drastic measures being taken by the ECB, however they did guarantee interbank lending. In the US the long awaited rescue plan for the banks was eventually agreed upon and passed and we saw equity markets rally for a short while.

However, this was short lived as in November fears concerning the banking system were moved aside for worries concerning the length and duration of the global recession. Interest rates were slashed to stave off a savage slowdown and possible deflation with UK rates being lowered to 1.5% and US rates to 0.25%.

Despite, these unprecedented low interest rates, investors turned their attention to safety and certainty and we saw a flight to US Treasuries and UK gilts amid the investor panic. US Treasury 10 year bonds are now yielding 2.37% the lowest level since at least 1962 when the Federal Reserve's records began.

Following the failure of Lehman Brothers the markets and the financial sector in particular went into freefall this caused investors to panic sell and this saw the beginning of the end for the beloved "hedge fund" as investors sold indiscriminately causing hedge funds to collapse. Those that are strong enough to survive have to protect their remaining investor's funds by implementing strict controls on redemptions thus ensuring that they are not left with only illiquid funds or those that are worthless.

Following this, many of the large global banks had to be part-nationalised and Morgan Stanley and Goldman Sachs were converted to commercial banks to qualify for protection from the US government. There was no such safe haven for Iceland who was declared bankrupt and investors worldwide had their savings destroyed. Dubai will need

to be bailed out and Russia has crashed, this all in the space of a few months.

Just when we thought we had seen everything the world could throw at us in 2008, we were made aware of a sensational fraud taken place by Bernard Madoff in the sum of \$50billion, which would wipe out millions in funds.

Currencies were also sent to try us and have been extremely volatile with Sterling having its worse year against the Dollar since 1971 falling from \$2 to \$1.35 and against the Euro falling from €1.40 to near parity.

With plunging stock markets, falling house prices and the lowest saving rates this century, the outlook for global economies in 2009 is sombre. However, we have seen incredible bail-outs of banks and the US FED and more recently an action plan brought before the US Senate by Barack Obama to bring his country back from the brink of recession and even depression.

We continue to believe in our strategy of diversification for our clients portfolio's by utilising managers with differing investment strategies. Whilst they all believe that the global economy will improve we will still see volatility and with this in mind, do not intend to chase the markets, but will take a more cautious approach using cash like instruments, such as T Bills and bonds to make up their portfolios. For those already invested in equities, these will be closely monitored and changes only being made where necessary and stocks only being bought and sold where value exists. Gold and oil are still commodities much on the manager's minds and they will be looking to increase their positions in these areas. If the market shows signs of "giving back" much of its depleted value, the managers will look to invest in these positions through Exchange Traded Funds (EFT's) or I shares.

Liquidity will also be in the forefront of everyone's minds as they position their portfolios this year, believing that the short term liquid trading managers will continue to do a good job in 2009 as they did during 2008.

When we see more confidence in the financial sector and lenders start to lend and borrowers borrow, we will start to see an improvement in global markets. It will just be a case of "wait and see" this year in the hope that some headway can be made to recovering some of the losses experienced during 2008 in what was the "Year that was!".