MARKET ANALYSIS

2008

The year 2008 will go down as the year when the FTSE100 share index had its largest fall since its inception in 2004. The FTSE was not alone in its woes, globally stock markets saw around half of their value wiped off, amounting to just over $30 trillion.

This was the year which became labelled as the year of the credit crunch, and although much of the financial worlds difficulties had its sources in the US sub prime crisis the year also provided a timely reminder that markets do operate in cycles and recession, at some point is inevitable.

This of course has been a year dominated by financial institutions, with Wall Street's "big 5" investment banks no longer around in their previous format, along with the difficulties faced by AIG, Citigroup, HBOS, Fortis, Royal Bank of Scotland and the entire Icelandic Banking system. The turmoil of the banking world in turn has led to the freezing of global credit, followed by a series of actions taken by world governments to attempt to free up the inter bank lending market. Although initially a number of these actions were taken unilaterally, towards the end of the year we have seen a number of decisions which look to have been reached via some form of global consensus. This we feel bodes well for recovery.

2008 will also be a year to forget for automobile manufacturers, with Detroit's "big 3" requiring government financial assistance to stave off bankruptcy and even Toyota posting losses. It is likely that in exchange for government support the auto industry is going to have to accelerate its development of cleaner, more environmentally friendly and fuel efficient vehicles and investors in companies developing greener, energy efficient products may be well rewarded.

Earlier in the year it appeared that inflation was the central bankers enemy, driven by rapidly rising commodity prices. However this now seems a long time ago, and

Key Data			
	31/12/08	**31/12/07**	**+/(-)%**
FTSE 100	4434.17	6456.9	(31.3)
Dow Jones	8776.39	13365.87	(34.3)
CAC	3217.97	5614.08	(42.7)
DAX	4810.20	8067.32	(40.3)
Nikkei 225	8859.56	15307.78	(42.1)
Hang Seng	14387.48	27812.65	(48.3)
£ = $	1.4448		
Euro = $	1.3387		
£ = Euro	1.0404		

Interest Rates	
Bank of England	2.0%
European Central Bank	2.5%
US Treasury Reserve	0.25%

it is hard to believe that oil prices reached $147 a barrel in July, given the current $43 level. At that time Russia predicted a crude oil price of $300 per barrel, however the subsequent economic slowdown and collapse in demand from the emerging economies of China and India has served to make that particular prediction the most inaccurate of the year.

The year has also been a difficult one for real estate, with house prices badly hit in the US and UK, whilst commercial property markets have struggled under the threat of economic slowdown resulting in higher levels of corporate failures. This in turn increases vacancy rates, whilst investors, especially hedge funds, have needed to exit their property investments in the search for liquidity.

The only real bright sparks in 2008 have been in the asset classes of cash and government bonds. The former is however struggling under the pressure of falling global interest rates whilst the latter has only really come into its own with the bursting of the commodities bubble, and in the long run is likely to feel pressure from the amount of new issues that will be required if governments, especially in the US and UK, are to meet their recently announced spending plans.

With virtually no asset class left untouched this has been a difficult year for investors, however markets, given time, do have the ability to repair themselves and for anyone brave enough to have either invested in the past 3 months, or willing to invest in the first part of 2009 current markets do represent an opportunity to make attractive returns over the medium to long term. Although much of 2009 may belong to fixed interest style investments such as gilt and corporate bond funds, equity funds should provide a greater longer term growth potential, although as always one should be ready for short term volatility.