



MARKET ANALYSIS

November 2008

October 2008 will go down in history as a tumultuous month for investors in equities, currencies, bonds and commodities. Virtually no asset class was safe as markets became gripped by emotionally driven panic and rational observations became irrelevant. Economic data was gloomy across the board, with consumer and business sentiment declining markedly and a broad range of key indicators only seeking to confirm what is almost universally agreed, that the Western world is now in recession, even if the technical definitions have still not actually confirmed this.

October also saw the Brown rescue plan for British banks, which quickly became adopted by many other leaders, although much of the credit for the original design is probably due to Credit Suisse.

Across the world financial institutions were encouraged to free up the credit markets and to recommence lending and although falls in interbank rates have taken some time to gain some momentum, it does finally look like some relief is coming to hard pressed businesses and consumers.

In addition to these developments central banks around the world have acted quickly to cut interest rates, and further measures are expected from both the Bank of England and the European Central Bank at their next meeting in early November.

Meanwhile although the credit crunch appears to be easing, the incredible meltdown of the Icelandic banking system, coupled with distress in Hungary and subsequent IMF intervention provides a further reminder that conditions could remain difficult for some time to come.

Our view however is that much of the market is now oversold and although periods of volatility cannot be ruled out there now exists a great opportunity to pick up investments which offer terrific value, with the US probably looking the most attractive region at this time. For a committed long term investor there appears to be excellent potential in equities. The recent actions by central banks are likely to prompt a medium term decline in interest rates, meaning that cash no longer looks as attractive in real terms.

Key Data			
	31/10	30/9	+/(-)%
FTSE 100	4343.2	4902.45	(11.4)
Dow Jones	9325.0	10850.66	(14.1)
CAC	3445.9	4032.1	(14.5)
DAX	4994.5	5831.02	(14.3)
Nikkei 225	8577.0	11259.86	(23.8)
Hang Seng	13968.7	18016.21	(22.5)
£ = \$	1.609		
Euro = \$	1.274		
£ = Euro	1.26		

Interest Rates	
Bank of England	4.5%
European Central Bank	3.75%
US Treasury Reserve	1%

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UK – The major news for October was the confirmation that Gross Domestic Product fell by 0.5% in the third quarter of 2008, thus signalling a further step on the road to a technical recession. The monthly consumer confidence survey fell to its lowest level since 1974, which in turn prompted a decline in the value of sterling, which is now almost 19% down against the US Dollar for the year to date.

The other major announcement was the rescue plan for the banking sector, with the soon to be merged Lloyds TSB and HBOS quick to take advantage of the capital on offer, along with the badly stricken RBS group. The plan does appear to be having a positive effect, with financial stocks stabilising. All eyes now focus on the next meeting of the Bank of England Monetary Policy Committee, where a 0.5% cut in interest rates is now expected. This is already having a positive effect on the equity market.

Europe – In the Eurozone most published data met with analysts' forecasts, although consumer sentiment was sharply down, especially in Germany. The Euro recovered a little against the dollar, but is still down by almost 13% for the year to date. There is still a concern that although a number of Eurozone economies do not look badly placed to whether the economic slowdown (namely Germany and France), others, especially Ireland and Spain, look to be greater difficulty. The European Central Bank is also expected to cut interest rates this week in an attempt to avoid a deep recession.

US – At the time of writing this commentary the 200 million eligible voters in the US are heading for the polls and if the forecasters are to be believed history is to be made with the election of the country's first black president. As this would give the Democrats control of both the executive and the legislature this may be of liking to financial markets, with a post election bounce already being predicted. Some doubts still linger as to whether small town America can take such a radical step, which is precisely why the McCain camp continues to fight to the bitter end and the only certainty is that the new president faces a massive job to restore confidence and reverse the sharp economic decline.

The dollar has strengthened of late against both Sterling and the Euro and this, along with a slightly better than expected set of economic data would tend to support most commentators views that the US is likely to be first to enter recession and the first to recover.

Asia Pacific – The Asia Pacific region continues to struggle to cope with the increasing evidence of a slowdown in the US and Europe, as demand for Asian manufactured goods continues to fall. The Japanese equity market dropped sharply in the last week of October after the Bank of Japan announced its first interest rate cut in seven years while the unwinding of the currency carry trade has seen the yen strengthen against the dollar. The Japanese Prime Minister has promised to pump 5 trillion yen (\$51 billion) into the Japanese economy to help households and small businesses and he has also indicated that he would delay elections until the global financial crisis subsides.

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