



Collection of Thoughts

2009 Early Optimism or a Turning Point



Changing the digits on the calendar from '08 to '09 may not have transformed the dire outlook for the global economy, but early signs of 2009 and late 2008 appears to suggest that investors appeared adamant to put the rout of 2008 behind them.

Despite the grim ISM report the S&P 500 Index jumped by 3.2% after the release of the data, propelling many stock market indices to almost two-month highs.

The MSCI World Index (+5.9%), MSCI Emerging Markets Index (+5.3%), Dow Jones Industrial Index (+6.1%), S&P 500 Index (+6.8%), Nasdaq Composite Index (+6.7%) and the Russell 2000 Index (+6.1%) Saudi SE up 7.8%, Dubai 7.9% MSM up 4.% all gained handsomely (albeit on thin volume) during the week straddling New Year's Day.

Although mercifully the door has been closed on 2008, let's begin with a recap some of the unprecedented movements experienced in financial markets during the year.

Equities:

- MSCI World Index: -42.1% (worst yearly performance since start of Index in 1970).
- S&P 500 Index: -38.5% (worst annual percentage decline since 1937 and 3rd worst on record; largest quarterly [4th quarter: -298] and daily [September 29: -107] points decline ever; 6th worst daily percentage decline [October 15: -9.0%]).
- Dow Jones Industrial Index: -33.8% (worst annual percentage decline since 1931 and 3rd worst on record; largest quarterly [4th quarter: -2,330] and daily [September 29: -778] points decline ever; 6th worst daily percentage decline [October 15: -7.9%]).
- FTSE Euro first 300 Index: -44.8% (worst yearly percentage fall since its creation in 1986).
- Nikkei 225 Average: -42.1% (biggest annual percentage decline on record).



Treasuries:

- US Treasuries: Yields dropped to lowest levels since 1950.
- US 10-year Treasury Notes: Yields fell by 182 basis points - biggest yearly points decline since 1995 and the second biggest in the last 20 years.

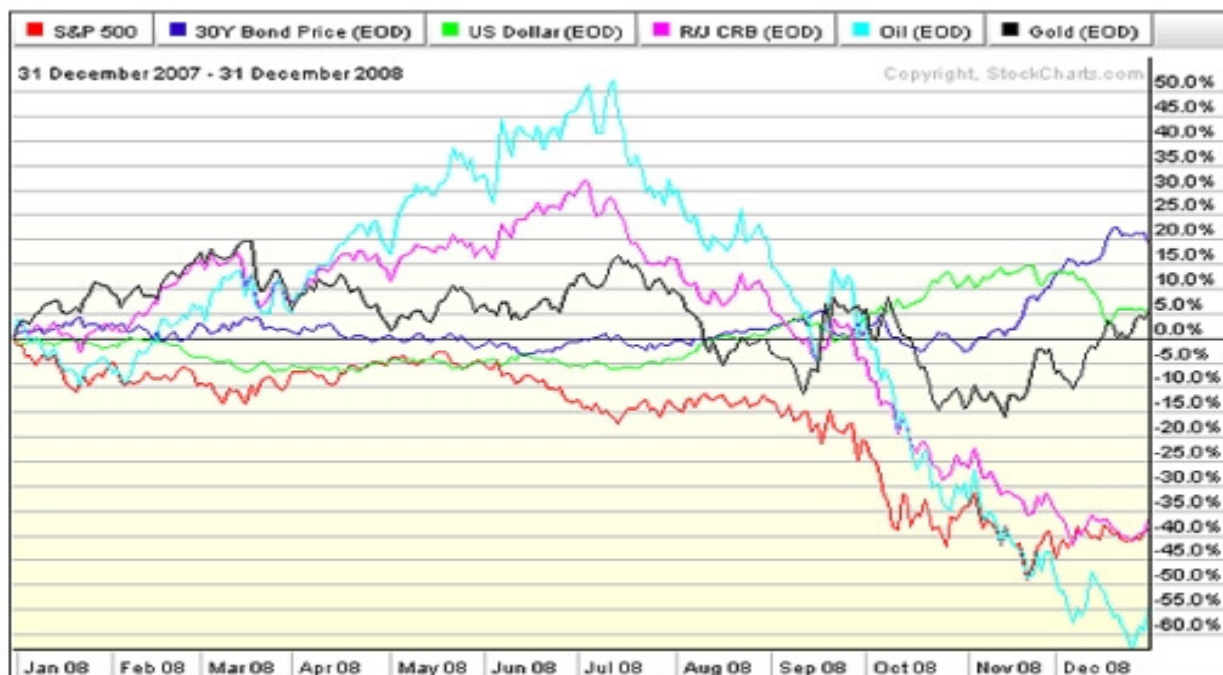
Currencies:

- Japanese Trade-weighted Index: +25.0% (largest annual rise since currency was allowed to float freely in 1973).
- Pound against US dollar: -26.2% (worst annual decline since gold standard was abandoned in 1971).
- Pound against euro: -22.8% (worst yearly decline since launch of single currency in 1999).

Commodities:

- Reuters/Jeffries CRB Index: -36.0% (worst annual performance since inception of Index in 1956).

The table below highlights the performance of the principal asset classes for 2008. While West Texas Intermediate Crude (-53.5%), the S&P 500 Index (-38.5%) and the Reuters/Jeffries CRB Index (-36.0%) recorded large losses, US 30-year Treasury Bonds (+18.6%) fared very well, and the US Dollar Index (+6.0%) and gold bullion (+5.5%) also provided safe havens for risk-averse investors.





December also marked the first monthly gain since August for the major US indices, with the Dow Jones and S&P 500 now up by 19.6% and 23.9% respectively since the lows of November 20, 2008.

The “storm” of 2008 has undoubtedly grown quieter in December, with the CBOE Volatility Index (VIX) having declined from 80.9 in November to 39.6 on Friday.

But risks remain plentiful and Bill King ([The King Report](#)) reminds us that “just as night follows day, international conflicts follow economic crises”. Escalating violence in the Middle East and tensions between Russia and the Ukraine served as a reminder and caused a 22.9% spike in the price of West Texas Intermediate Crude on the week.

For how 2009 how it would fare I like to share Marty Zweig’s classic warnings:

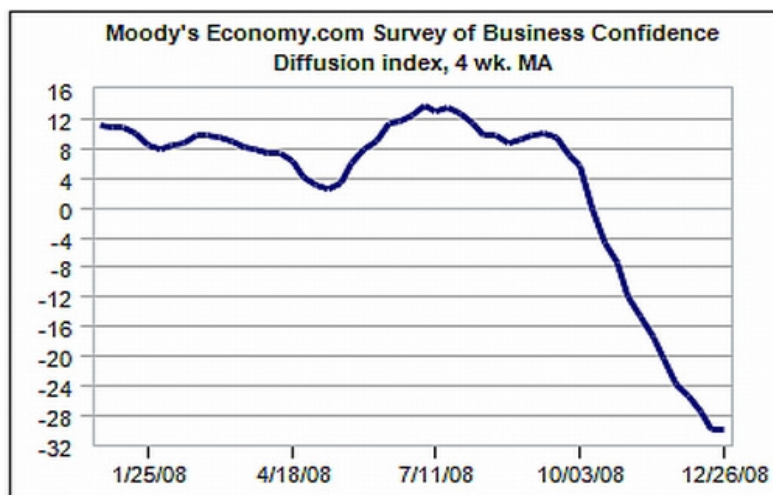
‘Don’t fight the tape, don’t fight the Fed’. Well, if you are bearish on 2009, you are indeed fighting the Fed and probably the tape. Why do I say that? Because the Bernanke Fed is going all out in its effort to turn the US economy around. Bernanke says the Fed will do whatever it takes to halt the current trend to deflation and to bring back prosperity and mild inflation to the US.

The stock market seems to have finally climbed aboard the Fed’s bullish bandwagon. All of which brings us to a very dramatic and critical juncture. If the market heads higher in early January, the money on the sidelines [\$8.85 trillion - 74% of US market cap] could begin to turn optimistic and even bullish,

Selective buying in global markets especially in the GCC is in order, and ’09 may turn out to be a good year for a discerning stock picker.

Economy

“Overall business confidence improved just a bit at the close of 2008, but remains very dark with hiring intentions and expectations regarding the outlook in mid-2009 dropping to record lows,” said the latest Survey of Business Confidence of the World conducted by [Moody’s Economy.com](#). The Survey results indicate that the entire global economy is solidly in recession.





Further evidence of the worldwide economic crisis came from the Semiconductor Industry Association, reporting that global sales of semiconductors declined by 9.8% in November compared with a year ago, and by 7.2% since the previous month.

Data reports released in the US during the New Year week mostly confirmed the dismal economic outlook.

- New orders plunged to their lowest level since January 1948.
- The S&P/Case-Shiller Home Price Indices reported record annual declines, with the 10-City and 20-City Composite Indices falling by 19.1% and 18.0% respectively.
- Overall, labor market trends suggest persistent weakening.

Elsewhere in the world, major economies remain mired in a severe slump. “Europe, Germany, France, and the UK all reported declines in indexes of purchasing managers in December,” said Asha Bangalore ([Northern Trust](#)). China’s factory sector has contracted for the fifth month running according to the CLSA China Purchasing Managers’ Index. ... The Australian ... Manufacturing Index has recorded readings below 50 for seven consecutive months ... In sum, weak economic conditions across the world is a challenge for policy makers in the months ahead.”

What is clear is that all the nations from Shanghai to Mumbai seem determined to defy the fundamentals and kick start the economy. In short term cash rich economies (GCC, China and Russia) are likely to weather the storm well. In long term the consumption powers of the east and the fire power of west (US) shall determine the new economic road map. Protectionism, Global Warming and Natural disaster will be threats. Media will continue to play an important role and perhaps the biggest opportunity will be to bring us all on the same platform as the world seems to be to defy the economic challenges, 2009 may just provide the turning point.