



Getting you there.



Global Contagion

At the beginning of the year I wrote an article in this space titled "America Sneezes", finishing with the old adage that when America sneezes the rest of the world catches cold. Bearing in mind that the current extreme problems in the global financial system started with the bursting of the US housing bubble around a year ago, which has since spread, it may be worthwhile looking at how the impact has been felt so far with a tentative look at where we will go from here.

Without doubt the US economy is suffering, although performing better so far than many forecasters predicted. Recent statistics showed that US house prices as a whole have fallen by 16% over the past year; Brunswick, the world's largest producer of motor boats recently announced that first quarter sales in the US were down 21% on 2007, itself the worst year for forty years in terms of unit sales; US auto sales in June were the lowest for fifteen years and American Express recently commented that even their cardholders, hardly sub-prime, were cutting back on expenditure.

In the UK evidence continues to mount of a sharp slowdown. Major house builders recently announced cuts of 40% in their workforces as UK house prices fall at their fastest pace since the 1990's; Marks & Spencer announced a profits warning and saw their shares fall 25% in a day; Inchcape recently announced that demand for cars had weakened considerably in the past couple of months and Ryanair has forecast a loss next year due partly to higher fuel prices but also to lower fares. Additionally higher heating bills this coming winter are yet to impact on consumer spending.

In Europe shares in Carrefour have fallen to their lowest level for five years as sales disappoint; German economic growth contracted in the second quarter and Spanish retail sales in June showed their largest ever fall. Asia meanwhile has seemed relatively immune so far as economic indicators are concerned.

All of the above calls for lower interest rates and increased government spending. Unfortunately the cupboard is

bare in this respect with continued high commodity prices causing inflationary pressures that make cutting interest rates at present difficult to justify. At the same time the poor state of government finances and high debt levels make increased government spending against a background of declining tax receipts similarly hard to justify.

Bearing the above in mind it is perhaps not surprising that stock markets globally have fallen this year. What is surprising however is that generally the worst performers have been in Asia, with declines typically of 20%. The Chinese market is down over 40% this year and India down 30%. In Europe markets are generally down by 20% or more. The best performing major markets have been the UK and US, with declines of around 15%, although it should be acknowledged that within these markets many sectors have seen much heavier declines, for example media, retail, property, financials and transport. The outstanding bright spot has been the commodity sector but even this is beginning to wilt as forecasts for global economic growth decline.

It seems likely that the economic news will continue to deteriorate, as over-indebted consumers, particularly in the US and UK attempt to reduce their debt levels and cut back on spending whilst the financial sector continues to clean up its balance sheet and re-build capital. This will likely provide for further volatility in financial markets. Investors however should be aware that many sectors and individual shares are now trading at levels not seen since the last recession; much of the bad news is already known and discounted in share prices and the global economy whilst likely to worsen from here will eventually recover. As always share prices will anticipate this recovery and whilst the present may be too early to buy, it should not be forgotten that it is always darkest before dawn and investors should be prepared to commit funds to equities when sentiment is at its most negative.

Mark Munro

Director

Fortis Asset Management (Guernsey) Limited

e-mail: mark.munro@gg.fortis.com

PO Box 119
Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB
Tel +44 (0)1 481 751000
Fax +44 (0)1 481 751001
investments@gg.fortis.com
www.gg.fortis.com

The information contained on this page is intended for general guidance only and should not be applied to individual circumstances without detailed professional advice. No responsibility for loss to any person acting or refraining from acting as a result of any material contained in this publication can be accepted by Fortis, the authors or the printer. Fortis Reads Private Clients Limited is licensed in Guernsey under the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc (Bailiwick of Guernsey) Law, 2000. Registered with the Chartered Institute of Taxation as a firm of Chartered Tax Advisers.