Just the facts please

October 2008 is another month for the history books – Let's just start with some startling facts.

Equities:

- The Dow dropped 14% – the biggest October decline since 1987, when the crash sent markets down 23% for the month. The S&P 500 was down 17%, and Nasdaq fell 18%. This ranked as the 15th worst monthly decline for the Dow Industrials since 1900.
- The S&P 500 had the most volatile month since November.
- We witnessed the most down days in the equity markets in a single month since August 1973. (Marketwatch)
- Compare 3 recent S&P 500 bear markets: -46% in 12 months from October 2007; -48% over 23 months in 1973-74; and -49% over nearly 3 years in 2000-03. The decline in this bear market has been steeper and there is still no end in sight.
- October had two days where the indices were up more than 9% – only the 10th time this has occurred over the past 80 years. (NYT)
- During an eight-day losing streak at the beginning of the month, the Dow Industrials fell 2,400 (-22.1%).
- There were 9 days in October where US equities moved up or down 4+%. To put this volatility in perspective, this never happened from 2003 to 2007; occurred five times from 1950 to 1970; and 8 times in September 1932. (NYT)
- The Dow had its second-biggest point drop on record (-733 points). The Dow also posted two of it biggest point gains, climbing by 936 points (October 13th) and 889 (October 28th).

Currency:

- The US dollar gained 14.3% against the euro, 22.3% against the Canadian dollar, and 31.8% against the Australian dollar. This is the fourth strongest month on record (using data going back to 1967). March '91, November '78, and October '82 are the only three months where the US dollar saw bigger gains. (Marketwatch)

Bonds:

- Perhaps the credit crisis is finally easing: overnight Libor dropped to its lowest levels in 6 years, falling to 0.73125%, down from 5.09% on October 9th. (Bespoke)

Commodities:

- Copper and oil had their worst one-month losses ever. (Barron's)
- Crude oil futures lost one third of their value, falling -33% during the month. This was their biggest monthly percentage drop since trading began in 1983.
- The average price for gasoline fell 31%, ($2.50 a gallon), down 14% from a year ago.
- Gold lost 18% for the month, its worst monthly drop since 1980.
- Wheat, copper and aluminium had their largest monthly declines in over 20 years; sugar had its biggest monthly fall in a decade. (WSJ)

Global markets:

- Emerging market bonds now sit at roughly 8% over Treasuries - a six-year high.
- Market cap losses:
  - The Standard & Poor's global indices lost $6.79 trillion (September 2008 saw a loss of $3.4 trillion)
  - The MSCI Emerging Markets Index fell nearly 30% – the worst month since August 1998. That equates to a loss of about $900 billion. (Marketwatch)
- Japan's Nikkei 225 hit a 26-year low.
- Iceland's exchange crashed -81% for the month. (Marketwatch)
- Russia had the world's most volatile index, with 17 days of moves greater than 4% in the Micex index. For the month, the Micex lost 28.8% (NYT)
- Argentina's Merval and Brazil's Bovespa indices were set to make their biggest one-month percentage losses since August 1998, with the Merval falling -37% and the Bovespa losing -25%

Central Bank actions:

- In unprecedented fashion, the Fed, ECB, BOE, Bank of Canada, and Sweden all participated in a coordinated rate cut (50 bps) on October 8th.
- The Fed cut an additional 50 bps on October 29th – bringing the Fed Funds rates to 1%.
- The RBA and the RBNZ cut the overnight rate by 100 bps, much greater than anticipated.

US Election

- This is the first election since 1928 without the incumbent President or Vice President running for office.
- The US elected its first African American President
- The Democratic Party can control the White House, the House and the Senate – first time since 1970

Economic data

- Data continues to disappoint:
  - US: ISM slumped 6.4 points to 43.5 (recessionary, Philly Fed printed -37.5, September Industrial Production fell 2.8%, Non-Farm Payrolls fell 159k (ninth consecutive negative month), Advance 3QGDP fell 0.3% qoq, and consumer confidence fell 23.4 points in October to 38 (an all time record low).
  - Australia: Westpac Consumer sentiment fell 10.2 points to 82, housing finance fell 3.2%, employment gained 2.2k, and unemployment rate rose to 4.3% (4.1% previously). NAB business conditions fell 2 points and inflation was higher headline CPI up 1.2%.

As we gaze into our crystal ball:

- October was one of the worst months for risk assets returns and volatility. What was once considered a Wall Street problem has spilled over into Main Street. We expect households and business across the world to continue to tighten their belts and hunker down for the long term.
- In Australia, the budget surplus will be spent immediately, and the RBA will continue to cut rates. Additionally, housing will deteriorate, China will slow down from its torrid pace, and the demand for commodities will ease further. We hope the RBA and government do not miss the runway as they pilot the economy to a smooth landing.
- In the US – it's the economy stupid! Data will continue to be weak. You might see a bounce in risk assets (equities, carry currencies: AUD, NZD, CAD) for a quarter or two (as valuation levels are at extremes), however 2009 and the early part of 2010 will be quite challenging the focus will revolve around the real economy.
- US budget deficits are going to continue to expand (Hint: Sell bonds). The Australian budget surplus is going to evaporate quickly. The unemployment rate is going to rise and the economy will be anaemic
- Central banks will are historically on hold for at least 12/14 months after the last rate cut
- Consumption in commodities and a slowdown in Asia are imminent – hence Australian economy will slow.
- Risk taking is not going to return in a hurry. Having been through such a violent correction in assets, it will take a while for normalcy to return.
- Low returns across all asset classes are to be expected for the next 12 to 18 months.

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