

## Newsflash

From the Investment Desk  
Eddy Tan  
Head, Analytics & Asset Allocation

### NEWSFLASH: US indices plunged; more banks rescued

#### US\$700b Bail-out Package Failed to get Congress's approval

US Congress flip-flopped with the proposed US\$700b bail-out package for financial institutions. Dow Jones and S&P 500 dived by 7-8%, while Nasdaq plunged by a lower 9%. US\$ 3-month LIBOR jumped by 100bp to 3.8%; cost of borrowing (and hence distrust among banks) jumped significantly. Commodities were not spared: crude oil sank by 10% to US\$96. Chinese steelmakers are said to have defaulted on contracts to import iron ore from India. The only silver lining was gold, which held up ~US\$880. As of 0945h today, Asian/ Australia/ New Zealand indices opened lower but on a relatively less gloomy tone, down by 3% (South Korea) to 6% (Taiwan). While we wait for Europe markets to open, yesterday, Europe was pummeled with -4-plus (Germany, Italy, Switzerland) to -8% (Austria, Belgium).

#### More Global Bank Failures

Clearly, the US-induced financial contagion has spread quickly to Europe. Fortis Bank, a large Belgian-Dutch bank which controls half of Belgium's retail deposits, was given a US\$16b lifeline by the three Benelux countries. Last week, the bank denied rumors of raising money, after suffering indigestion from swallowing ABN Amro's units. Germany bailed out Hypo Real Estate (€35b), UK Treasury nationalized mortgage lender Bradford & Bingley (Santander to buy parts of), Iceland takes over Glitnir Bank (€600m), Citigroup absorbs Wachovia's banking operations (US\$2.2b, brokered by FDIC) and US Federal Reserve pumps in US\$620b in dollar liquidity to European and Japanese central banks.

#### Credit Crisis Spreading

The contagion has spread to other parts of Europe. More skeletons could appear, in the form of equity/ counterparty exposure. We are checking on this additional exposure. Negative sentiment will affect even healthy banks and businesses. Expect more job losses, closure of hedge funds and businesses, restrictive trading (ban of shorts) and access to credit.

#### Silver Lining

We think the sharp falls bring us closer to the bottom, where market trading could go sideways for the next 6-12 months.

#### **Proposed Course of Action**

- We continue to advocate the *sleep test* (we didn't say you fall into deep sleep without waking up!). Move to Bedrock/ safety if you can't sleep well from such market turmoil.
- Maintain your RSP; the more well-heeled investors could consider upsizing monthly RSP.
- Tranche investors will need many more tranches.
- Further bail-out packages could mean that central banks will print more money, leading to inflationary pressure. Hence, we will stick with our call on commodities.
- Time will heal these deep wounds. There will be opportunities for us to buy good assets at ridiculously depressed valuation.

**(Note: IPP is monitoring the situation and will update accordingly when there is more information.)**

*This Newsflash is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. Opinions expressed in this commentary are subject to change without notice, and no part of this publication is to be construed as an offer to buy or sell any securities or financial instruments whether referred to herein or otherwise. The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. We will not accept any liabilities whatsoever whether direct or indirect that may arise from the use of information in this publication. The company, its directors, connected persons or employees may from time to time have interest in the securities mentioned in this publication. Past performance is not necessarily a good indicator for future returns. Please consult your IPP FAR for any intended implementation.*