

## October 2008 Market Recap

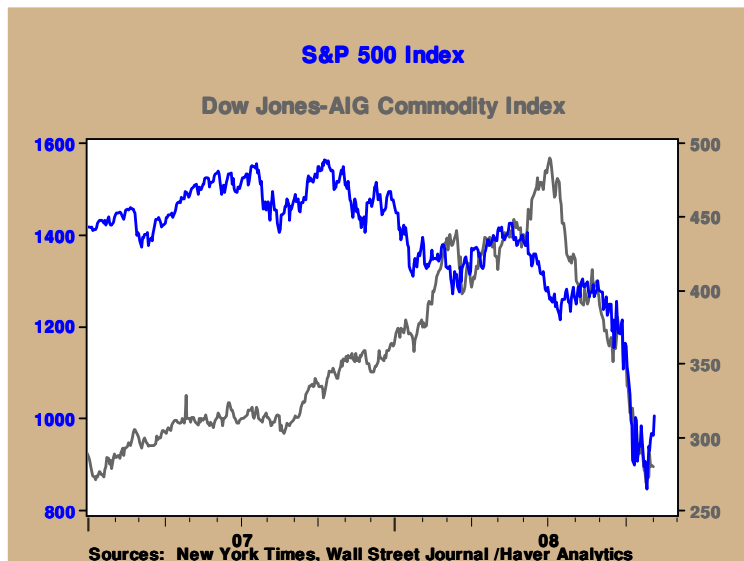
Presented by *Sean Gross*

### Ghoulish October for stocks

October offered far more tricks than treats for investors this year, as stocks around the globe endured a period of remarkable volatility and posted one of their biggest down months on record. The economic rescue package approved by Congress early in the month failed to generate sustained enthusiasm, and stock indices plunged in the immediate aftermath of its passing.

Other salvage efforts by policymakers intended to reinforce the banking system and reinvigorate credit markets continued in full swing—with several important new developments—but investors showed little faith in the combined rescue initiatives, as concerns about a global economic slowdown dominated investor sentiment. Economic data releases offered little to dissuade those fears. As a result, most commodities saw sharp price declines, and many types of bonds experienced considerable selloffs as well, as a flight to quality was the pervasive theme throughout the month. With the selection of President-elect Barack Obama now official, economic considerations will surely be front and center on his agenda in the months to come.

### Stocks battered, flight to Treasuries



Despite Congress' passing of the Emergency Economic Stabilization Act of 2008 (EESA) on October 3, stock markets stumbled out of the gate and failed to gain any real traction during October. The S&P 500 Index fell in eight consecutive trading days to start the month—suffering a 22.5-percent cumulative loss during that stretch—before staging an eye-catching 11.5-percent one-day rally on October 13. Those early days set the stage for a month of wild price swings, whereby the index rose and fell by more than one percentage point on a stunning 20 out of 23 trading days. At month-end, the S&P was down slightly more than 16.5 percent.

The Dow Jones Industrial Average also fell sharply in October, losing just over 14 percent, and the tech-heavy Nasdaq declined 17.3 percent, influenced by lackluster third-quarter technology earnings.

Although domestic large-cap stocks endured sharp losses, domestic small-caps and foreign markets suffered even more mightily. Here at home, the small-cap Russell 2000 Index fell nearly 21 percent for the month, while overseas, the developed market MSCI EAFE Index and the emerging market MSCI Emerging Markets Index were off 20.2 percent and 27.5 percent, respectively. Commodities, which had been rewarding investors while the stock market languished, also fell hard from their perch in October—down 20 percent, as measured by the Dow Jones-AIG Commodity Index.

As investors mostly shunned perceived riskier assets, they flocked to the safe harbor of U.S. Treasuries, sending Treasury prices up and yields down across a range of maturities. The yield on 3-month Treasuries, for example, fell from 0.92 percent to 0.46 percent during the course of the month—reaching an historic intra-month low of 0.22 percent on October 15.

### **Major policy moves**

Policymakers continued to evolve in their approach to shoring up the financial system and credit markets, while also remaining vigilant in responding to unfolding developments in the broader economy. The Treasury, in a diversion from its original strategy, devoted \$125 billion of the EESA's original \$700 billion to make direct investments in nine of the nation's largest and most influential banks in an effort to improve their capital positions.

The Federal Reserve (the Fed) worked in unison with several foreign central bankers to enact a coordinated 50-basis-point reduction in interest rates on October 7, reducing the target federal funds rate to 1.5 percent from 2 percent. It then cut the rate another 50 basis points, to 1 percent, at its regularly scheduled meeting on October 28. The steps were deemed warranted in response to a further weakening in the economy's vital signs.

Consumer spending fell sharply in September and showed weakness across a broad array of sectors—with notable drops in the sales of cars, trucks, and furniture. The Fed's "Beige Book"—a summary of September economic activity across the Fed's 12 regional districts—showed sluggishness in manufacturing activity and consumer spending, as well as tight credit conditions, in each of the districts. Sluggish activity in the present, and the expectation for continued weakness, has caused many businesses to retrench and scale back their workforces, which further clouds an already hazy employment and consumer spending picture.

We expect future policy initiatives to focus on a more direct intervention to support homeowners who either are, or are at risk of becoming, delinquent on their mortgage payments or who owe more on their homes than their homes are worth. Secondly, another round of fiscal stimulus by Congress seems a near certainty, in efforts to provide a boost in disposable income to consumers at a time when many are feeling the pinch.

***Disclosure:** Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged and investors cannot invest directly into an index. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The Nasdaq Composite Index measures all Nasdaq domestic and non-U.S.-based common stocks listed on the Nasdaq Stock Market. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Dow Jones-AIG Commodity Index is a price-weighted index that serves as a measure of the commodities market that comprises 19 commodity futures in seven sectors with returns on cash collateral invested in U.S. Treasury bills.*

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