MARKET COMMENTARY
OCTOBER 10, 2008

CRISIS OF CONFIDENCE
Global central banks have gone to great lengths in recent weeks to shore up struggling financial institutions and prevent their respective countries from suffering further economic malaise. However, banks remain unconvinced of each other’s soundness and viability and as such, are still refusing to lend to each other. Such loans are the lifeblood of commerce and, therefore, this crisis of confidence poses a major threat to the global economy. The fear has spread to investors and has triggered enormous upheaval in global capital markets, resulting in a massive flight-to-quality in traditional short-term U.S. Treasury instruments.

The multiple official emergency actions taken to date collectively have sought to restore investor confidence. While it remains unclear which specific actions will prove to be the most effective, it is equally clear that governments around the world are committed to continuing to undertake actions designed to restore order to the markets.

MEASURES ADOPTED SO FAR
• The Federal Reserve has set up a special entity through which it will purchase commercial paper directly from eligible issuers in an effort to help businesses obtain funding for their day-to-day operations like paying their employees.
• The Treasury Department has announced a temporary guarantee program for money market funds.
• Congress has passed the $700 billion Troubled Asset Relief Program (TARP), the details of which have yet to be finalized.
• Treasury has indicated it would consider a plan to provide capital directly to banks through equity ownership.
• Global central banks have lowered interest rates in concert and additional easing is said to be under consideration.

SERIOUS RISKS STILL LOOM
• The possibility of a protracted global economic downturn.
• Questions about the fate of the nation’s two biggest automakers.¹
• The fact that state and local governments face financial difficulties as tax revenues shrink.

LOOKING AHEAD
Liquidity has been supplied to the banking system but the desired result of the free flow of credit among banks and ultimately, to corporations and consumers has not materialized. The issues that have seized up the credit market still remain: a lack of confidence, fear and mistrust. The historic measures undertaken by the U.S. Treasury, Federal Reserve and government officials in concert with their foreign counterparts reflect a commitment to the complete restoration and rebuilding of a functional, newly-regulated, coordinated financial system. We believe it likely that restoration of investor confidence may eventually emerge as a result of these numerous measures being implemented domestically and globally.

¹ Standard & Poor’s said it may lower the credit ratings of GM and its financing arm, GMAC, on concern over a possible “serious challenge to liquidity” in 2009.
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