

September Round Up

The credit crisis that first broke in August 2007 deteriorated very quickly in September 2008. The month was dominated by bank failures and bailouts, a dysfunctional LIBOR market, free falling equity markets, failing credit markets and a general crisis of liquidity. Equities, bonds and commodities all sold off simultaneously as investors sought to reduce risk in any way shape or form. Below is a quick time line of the key events in September as the US financial system lurched precariously to the edge, where at the time of this writing, it remains.

- September 7: Federal takeover of Fannie Mae and Freddie Mac.
- September 14: Bank of America takeover of Merrill Lynch over fears of a liquidity crisis.
- September 15: Lehman Brothers files for Chapter 11 bankruptcy protection.
- September 17: Federal Reserve rescue finance of 85 billion USD extended to support AIG.
- September 19: Treasury Secretary Paulson announced the proposed "Troubled Asset Relief Program."
- September 19: The US SEC leads a number of regulators around the world in establishing a ban on short selling.
- September 25: Washington Mutual is placed under receivership of the FDIC and its assets sold to JP Morgan.
- September 28: Fortis NV partially nationalized.
- September 29: Congress votes down the "Troubled Asset Relief Program."

Money market stress increased to unprecedented levels with the TED spread widening from 1.09% at the end of August to 3.42% at the end of September. 3 month US T bills traded briefly with negative yield.

Currency markets gyrated significantly, with the EUR starting September at 1.463, weakening to 1.399, rebounding to 1.4866 and closing the month at 1.409. Similar trading patterns were seen in GBP and CHF. JPY traded from 109 to 104 then to 106.

- Equity markets were broadly weaker, the US markets losing between -6 to -10% depending on your benchmark. Small caps were more resilient as the sell off was driven by capital flows. European markets saw greater damage with European indices losing between -6 to -20%. Asia experienced even heavier losses, with Japan losing -14%, HK -19%, and various markets losing of the order of mid teens. Similar losses were recorded in Lat Am.

- In fixed income, the Lehman Aggregate lost -2% in the month. Credit spreads widened sharply in the final weeks of September, US AAA's widening 1.6% on average, AA's 1.9%, A's 2.4%, Baa's 3.2% and High Yield an alarming 9.5%.

- Commodities also fell as pricing started to reflect recession expectations. Crude futures fell -16%, driving the whole energy complex down by similar amounts. Base metals, softs and ags were all sharply weaker. Only gold was higher at +4.8% over August purely reflecting the degree of risk aversion in the markets.