Stock Market Review

Edward Rizzo

Mr Rizzo is a director at Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

Equity markets register worst August since 2001

	August 2011 Performance	Jan to Aug 2011 Performance	Movement from August 2011 low
MSE Share Index	-4.8%	-18.8%	NIL
Dow Jones	-5.1%	+0.3%	+9.5%
S&P 500	-6.3%	-3.1%	+10.7%
FTSE 100	-7.2%	-8.6%	+12.6%
CAC 40	-11.3%	-14.4%	+12.7%
DAX 30	-19.2%	-16.3%	+8.2%

Growing fears that the major economies around the world would slide back into recession coupled with the credit rating downgrade of the United States on August 5 were the principal reasons for stockmarkets to register their worst August performance since 2001.

In the US, the Dow Jones Index closed the month 5.1 per cent lower while the S&P 500 registered a drop of 6.3 per cent. In Europe, the FTSE 100 was among the best performers with a loss of 'only' 7.2 per cent during August. This was overshadowed by the steeper declines in France and Germany as the CAC 40 shed 11.3 per cent and the DAX 30 slumped by an astonishing 19.2 per cent.

Markets were very volatile throughout the month drawing comparisons to the turmoil that characterised equities in the aftermath of the collapse of the US investment bank Lehman Brothers in September 2008. For the first time since February 2009, the S&P 500 in the US posted four consecutive months of declines between May and August 2011. Over the past four months, this Index shed a total of 10.6 per cent. Previously, in the height of the global financial crisis in late 2008/early 2009, the S&P 500 had sunk by 37.3 per cent between September 2008 and February 2009.

The performance of equity markets on August 8 revealed the extent of the panic that hit the market after the credit rating of the US was downgraded by Standard & Poors. On the day, the 500 companies forming the S&P 500 index in the US all fell for the first time since 1996.

Also on August 8, the Dow Jones Index shed a total of 634.76 points or 5.6 per cent – its biggest drop in a single session since late 2008. Only a few days earlier, the Dow Jones had slumped by 512.76 points or 4.3 per cent on August 4.

Although the equity market in Malta performed better than the main international stockmarkets, the 4.8 per cent decline in the MSE Share Index was the worst ever August performance. On 9 August, the local market also reflected the crash across international markets as it registered its worst daily performance since March 1999 with a fall of 4.6 per cent.

While the local equity market closed the month of August at a new 2011 low, major international equity markets rose sharply during the latter part of August. Equities recovered from the heavy losses seen in early August as signs of a weakening economy led to speculation that the US Federal Reserve will introduce a new round of monetary expansion. Earlier on during the month, the Fed had clearly stated that interest rates in the US will remain at current historically low levels until mid-2013.

The stockmarkets in the US and the UK hit their monthly lows on 9 August. The FTSE 100 touched a low of 4,791.01 points but climbed by 12.6 per cent from this level by the end of the month. The FTSE was heading for its worst month since the bankruptcy of Lehman Brothers in September 2008 but speculation of further monetary easing by central banks fuelled an end-of-month rally. Meanwhile, the Dow Jones and S&P 500 advanced by 9.5 per cent and 10.7 per cent respectively from their August 9 lows.

On the other hand, the French market touched a low on 11 August and has since recovered by 12.7 per cent and the Frankfurt bourse registered its low on 19 August before gaining 8.2 per cent.

In times of weak investor sentiment and turmoil in the equity markets, those assets regarded as 'safe havens' become more attractive to investors and normally climb to higher levels. This was also very evident in recent weeks with the price of gold reaching new highs (+12 per cent in August) while on the currency markets the Swiss Franc and Japanese Yen also broke record levels against the US Dollar despite direct intervention by the central banks in both countries to stem the rise in their currencies.

The bond market is also seen as a safe haven in times of weak sentiment towards equities. However, while the sovereign bonds of the US, UK and Germany gained in price (with a corresponding decline in yield),the eurozone periphery nations that have caused of the sovereign debt crisis saw their government bond prices collapse. In fact, the European Central Bank convened an urgent meeting in early August to approve the purchasing of Italian and Spanish government paper after yields on bonds of both countries exceeded the six per cent level.

The prices of Malta Government Stocks have mainly tracked movements in the German bund prices. During the month of August, the Rizzo Farrugia MGS Index (which monitors the performance of local government paper) rose by 0.9 per cent to 990.038 points after touching a seven-month high of 991.856 points on 11 August. Trading activity in MGS swelled to an all-time monthly record of €98.4 million helped by (i) the sharp increase in prices to record levels for some stocks and (ii) the willingness of the Central Bank to offer a selection of some stocks on the market to create a two-way mechanism.

While institutional activity was evident in some of the shorter and medium term Government Stocks, retail activity was generally centred around those stocks which had been issued in recent months by the Treasury. Although prices were volatile from one day to the next reflecting developments across the eurozone, the price of the 5.25 per cent MGS 2030 surpassed the 103 per cent level on various occasions while the 6-year bond which had been offered to the public at 100.75 per cent in May 2011 surpassed the 104 per cent level.

Apart from the very high activity and general upward trend in the MGS market, the main developments across the local market during the month of August were the publication of half-year results by those publicly traded companies having a December year-end as well as the mandatory bid launched by the Spanish insurance company Mapfre Internacional SA for the remaining shares in Middlesea Insurance plc.

During the final three days of August, six companies issued their interim financial statements. RS2 Software plc and MIDI plc registered sharp improvements in profitability while GO plc announced an increased loss of €17.3 million for the first six months of 2011. The widening loss incurred by GO was solely due to the worsening financial performance of the Greek company Forthnet which overshadowed the increasingly profitable operations in Malta. The impact of the political uprising in Libya was very evident in the performance of Medserv plc.

However, despite the Misurata base was non-operational for a large part of the first half of the year, the overall results of the Medserv Group still show a slight profit for the first six months. The developments in Libya naturally also had a negative impact on the financial performance of International Hotel Investments plc as the improved performances of the hotels within their portfolio situated in Europe was outweighed by the sharp drop in occupancy experienced in Tripoli. However, the more recent developments in Libya ought to augur well for the future of those companies exposed to the Libyan market.

During the first few trading sessions of September, international equity markets took a renewed downturn on further evidence of weak employment figures in the US which re-ignited fears of a global economic slowdown. Similar to the trend in August, as equity markets plunged, bond prices surged as the eurozone benchmark yields dropped to fresh lows of below 1.90 per cent earlier this week. This helped the Rizzo Farrugia MGS Index to establish a new 2011 high of 997.165 points on September 6.

September is normally among the weakest and most volatile months for equity markets. The crashes experienced by the stockmarket following the 9/11 terrorist attacks 10 years ago and also in the aftermath of the bankruptcy of Lehman Brothers in 2008 are the most vivid examples in recent years. The immediate focus is on the monetary policy meeting of the European Central Bank being held today where analysts are expecting the ECB to acknowledge that the downside risks to growth have increased while inflationary pressures could be easing. Meanwhile, the deadline of Friday 9 September for banks to express their interest in the private sector Greek bailout could also have a lasting effect on the debt crisis and the market performance in the weeks and months ahead.

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