Market Report

9th March 2009

Markets all over the world plunged to new lows this week with the Dow closing below 7,000 for the first time since 1997.

The sell-off was partly due to the comments from Mr. Michael Geoghegan head of HSBC the world's biggest bank who said "With the benefit of hindsight, the group wishes that it hadn't made this investment." HSBC bought America's Household Finance for $15 billion in 2003. Now, it wishes it hadn't. The U.S. unit destroyed $10 billion in capital, says the bank.

Some may remember that whilst institutions such as HSBC were pumping colossal amounts of cash into the US Household finance system, RIO was busy raising the alarm, pointing out that the US mortgage market could collapse.

Our report in 2003 stated '*What is perhaps the most frightening is that these GSE's (Government Sponsored Enterprises) have become the credit engine of the American economy. And they constitute the largest, most liquid bond market in the world.*

In 2003, the GSE's issued more than $1tillion worth of new debt, up from $922billion the year before. And all told, they own or guarantee 42% of the $7trillion US mortgage market.'

RIO felt that the US housing collapse would impact no fewer than 72million people.

Today of course, almost every investor in the world could say the same thing as Mr. Michael Geoghegan. No matter where they put their money, it seems to be that everyone is in negative territory.

HSBC have taken action and are closing down its entire U.S. consumer finance business - some 600 shops nationwide.

In sunny California they are suffering an "avalanche of job losses." In fact across the US, jobless benefits are at a record high.

AIG is getting another $30 billion in bailout money. The *New York Times* calls it "propping up a house of cards" and we would agree.

Another house of cards is General Motors. It just reported a loss of $31 billion on sales of $149 billion. GM has already gotten a loan of $13.4 billion from the government. Now, it wants $16 billion more.

Lets not forget Fannie Mae. Fannie made a loss of $25 billion and now she's drawing more money from the government - an additional $15 billion. When does it stop? Every business in the world has to adjust to the new economy, including ours.

Cash Deposits & Fixed Interest

Across the pond, the Bank of England has cut interest rates to 0.5% a fresh all-time low, and says it will now boost the money supply to help revive the economy. Interest rates have now been reduced six times since October.

The Bank said it would expand the amount of money in the system by £75billion, a policy called quantitative easing - in an attempt to boost bank lending.

Chancellor Alistair Darling acknowledged that the latest rate cut would be a blow to savers who faced another drop in the return on their money but said "the key thing for each and every one of us is to ensure we get the economy moving to help people and to help businesses grow".

While the Bank will initially add £75bn, Chancellor Alistair Darling has given it permission to extend this to up to £150bn. The idea is that if the amount of money in the system is boosted, commercial banks will find it easier to lend.

Many business groups have attacked the recent cuts in interest rates, saying they have done little to encourage banks to lend more. Others argue that they are unfairly hurting the returns of savers.

Low risk investment like UK Treasury notes currently yield 2.087% over 5 years and 3.05% over 10 years do not seem appealing. Meanwhile in the US, bank deposits are returning less than 1% with Treasury notes little better; priced to yield only 2.99% - just as the Obama administration announces a $1.75trillion budget deficit.

The RIO Fixed Income Bond has also had to reassess its rate of return due to several factors, including the fall out from UK rate cuts. Where previously cash deposits were earning 4%+ these same deposits are now earning 0.5% and this obviously has an adverse effect on the returns. We will contact all investors holing the Fixed Income Bond to advise of the new rate of return which is now set at 7%.