RAM Capital

WEALTH WORKING

NEWSLETTER

February 2010

The main issue over the markets in February was the budget deficit and financing problems of Greece, and the way that EU would handle this problem. The markets feared that Euro might weaken and the crisis in Greece might spread to Portugal, Ireland, Italy, and Spain, whose budget deficits have soared over the last three years. Although Greece came back with a tough austerity plan, it seems that it would not be enough to bring the deficit down to 3-4% to GDP. Another negative for the Euro is the confusion about how Greece will get support from Euroland and who will foot the bill.

Another important and unexpected development within the month was the Fed's raising the discount rate by 25 basis points. The first reaction of the markets was rather pessimistic as it was perceived as a signal that Fed would start to withdraw the excess liquidity that it had injected within the context of the stimulus plan. Some even thought that the Fed could start a series of interest hikes soon. However, explanations by the Fed pointed out that the action was nothing more than a technical adjustment.

Commodity prices in February followed a path parallel to equity markets. Precious metals, led by gold, had a correction in the beginning of the month, rallied in the rest of the month, and ended up with a positive return.

The risk appetite in the credit markets while negative in the first half recovered and continued to increase together with the confidence later on in the month. The interest was mostly, once again, to EM credits, including the high yield bonds. We witnessed quite a demand towards new issues, which in return ignited the number of more new issues in the pipeline. Consequently, the yield on 10-year US treasury did not change much when we consider the beginning and the ending of the month. However, the yields fluctuated within the month together with the tension in the markets in general.

While taking a step into March, it is still not possible to say that the markets have a clear direction or trend. Nevertheless, we observe that the markets are long biased as they do not collapse in the emergence of negative news. On the other hand, there is not enough fuel to carry the markets ahead as well. In such an atmosphere, solid jumps in the economic data in either direction may have an impact on the markets. The most important of those data will absolutely be the US unemployment data. Whenever we see some progress in unemployment, which remained high in February at 9.7%, it will not be a surprise if a new rally in the markets takes start. Hence, it might be the time to take some risk and wisely add some assets to the portfolios.