



M³ STAR RATINGS REVIEW

MONTHLY MORNING MEETING APRIL 2009. PRESENTED BY iFAST FINANCIAL INDIA PVT LTD ©

REGIONAL STAR RATINGS US (4.0 STARS – VERY ATTRACTIVE)

- 1) The US market (as represented by the S&P 500) trades at an estimated PE ratio of 15.1X and 12.1X for 2009 and 2010 respectively (as at 31 March 2009). Earnings are expected to decline by 13% in 2009 but could rise by 25.1% in 2010 as the US economy recovers.
- 2) GDP declined 6.3% on a q-o-q annualised basis in 4Q 08, after a 0.5% decline in 3Q 08. The contraction was worse than earlier estimates of -6.2% and the US Federal Reserve expects GDP to contract by up to 1.3% in 2009.
- 3) The US job market continues to lose workers, as non-farm payrolls fell by 651,000 in Feb 09, the third straight month where over 600,000 jobs were lost. The unemployment rate rose to 8.1%, the highest level since 1983.
- 4) US home prices continue to slump, with the S&P Case-Shiller home price index down to levels last seen in Dec 2003 (as at end Dec 2008). However, several indicators like existing and new home sales (up 5.1% m-o-m and 4.7% m-o-m in Feb 09 respectively) and higher refinancing activity are hinting at a turnaround in the housing market.
- 5) ISM Manufacturing and Non-Manufacturing composites have come off their lows made in Dec 08 and Nov 08 respectively. While both composites are below the 50% level which generally indicates expansion, they both point to improving conditions since the end of 2008.
- 6) Monetary policy is no longer useful to boost growth (Fed Funds target rate is between 0-0.25%) so the Federal Reserve is now looking to the process of quantitative easing. On 18 Mar 09, the Federal Reserve announced plans to spend an additional US\$1.15 trillion: US\$300 billion for the purchase of longer dated US Treasury bonds, US\$750 billion for buying mortgage-backed securities and a further US\$100 billion for federal agency debt.
- 7) A "Public-Private Investment Plan" has been announced, which will allow public money to be pooled with private investment, leveraged up to 6 times with the FDIC guaranteeing the leveraged portion of the investment, representing about US\$500 billion (with the potential to expand to US\$1 trillion) which can be used to purchase troubled loans on bank balance sheets.
- 8) The US dollar index which measures the strength of the US dollar against 6 major world currencies strengthened considerably in the first 2 months of 2009, gaining as much as 10.0% on 3 Mar 09 (on a year-to-date basis). Federal Reserve plans to purchase longer dated US government bonds led to subsequent weakness in the USD, and the US dollar index is up by a mere 3.2% year-to-date (as at 21 Mar 09).
- 9) While much economic data is clearly negative, consensus expectations have fallen to low levels such that negative news has surprised on the upside. Economic data suggests that the US economy ground to a halt in 4Q 08, but conditions seem to have improved. While we expect negative full-year 2009 GDP, stocks have already corrected severely, and we maintain a 4.0 star "Very Attractive" rating on the US market.