Global financial markets assignment

Business

Equity market, banking sector and a selected financial institution during the October 2002-August 2009 period, which covers the October 2002-September 2007 bull market, the October 9, 2007-March 9, 2009 bear market. It also links to a series of articles on the causes and Impact of the financial crawls In the ELK. No amount of monetary or fiscal policy can fix the errors of the past, just like no modern treatment can quickly fix up to health a drug addict incapacitated from a decade-long drug abuse. Table of Contents Global Financial Markets (2002-2007)

Stock markets are used to implement prevarication programs, and they often play an important role in the development of emerging economies (Lee, 1998). The performance of a stock market of an economy is of interest to various arties including investors, capital markets, the stock exchange and government among others. Stock market performance is influenced by a number of factors key among them the activities of governments and the general performance of the economy. Economic activities do affect the performance of stock markets.

Other factors that affect the stock market's performance include, availability of other investments assets, change in composition of investors, and markets sentiments among other factors (Mendelssohn, 1976). Methodology As the main objective of this paper is to study the impact of Supreme crisis on U. S. Tock market, financial sector and a chosen financial institution, therefore daily data of S 500 stock indexes between May 2002 to December 2009, S banking index and also the Bank of America's Index were studied. Investigation on S&P 500 stock indexes that includes 500 leading U.

S. Stocks allows this paper to generate a better understanding based on largest and most established companies in U. S. The full period of study is then divided into 2 different stages to allow behavior of stock market performance to be investigated in each stage or sub-period of Supreme crisis. Referring to the facts and figures provided by Yahoo! Finance and Bloomberg, the following sub-periods are developed: The US bull market (Cot 2002 to mid- September 2007), the U. S. Bear market (October 9, 2007- March 9, 2009).

The main trend and events influencing the performance of the stock market in the country you are analyzing In order to analyses the US Stock market, I will be focusing on the S&P 500 Index. I will be analyzing two period's main events and trends, which are 2003-2007 (US Bull Market), financial cants (2008-2009 US sear Market). The 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S 500 is designed to be a leading indicator of U. S. Equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Companies featured on the index are chosen by the S Index Committee, Standard & Poor's panel of analysts and economists a. The S&P 500 is a market value weighted index – each stock's weight is proportionate to its market value and it is one of the most commonly used benchmarks for the overall U. S. Stock market. However, The DOD Jones Industrial Average (DEJA) before was the most renowned index for U. S. Stocks, but because the DEJA contains only 30 companies, overall people agreed that the S 500 was a better representation of the U. S. Market and some consider it to be the definition of the market.

Figure 1: U. S. Bull Market (2002-2007) 2003-2007 such as: Overselling from the 2000-2002 market being corrected Increased investor appetite for risk, which was a function of global liquidity Collapse in bank lending standards, which led to bubbles in housing and consumer credit Consumer spending binge driven in part by housing boom Outsized earnings growth resulting from margin expansion Strong rally in commodity-related stocks due to 5%+ global economic growth Figure 2: US sear Market (2007-2009) During the bear market an intense dispute arose as to whose caused the stock market falling.

The political parties were profoundly at odds throughout this phase. For the majority division there were three groups: Those that simply blamed the economy: Michael J. Panzer, author and 25-year Wall-Street veteran, stated that “ the real reasons behind the sell-off include the bursting of history’s biggest housing bubble, which triggered a showplace of wealth destruction that has wreaked widespread havoc throughout the economy, as well as the unraveling of a multi- rolling-dollar financial house of cards built on greed, ignorance, and fraud. Others that pinned the blame on the passing Bush Administration: Former United States Secretary of Labor Robert Reich said the fall in stock prices after Beam’s inauguration was caused by the policies of former President George W. Bush, and that the housing and financial bubbles, as well as the decline in the stock market, all began under Bush’s Presidency. Others that pushed the blame on the newly arriving Obama Administration: As of early March 2009, the S&P 500 had fallen 20% since the inauguration of President Barack Obama (less than two months earlier), the fastest drop under a newly elected president in at least 90 years.

Editorials in the Wall Street Journal by the editorial staff and Michael Buskin, one of George H. W. Bush's Council of Economic Advisors, blamed this on Beam's economic policies. How has the banking sector performed as compared to the country's index I downloaded the S&P Banking Index (ABACI) data from the Yahoo/Finance web site. The performance of the S&P Banking Index data, in comparison with the S&P 500 Index (GASPS), is shown in Figure 1 in two separate graphs for the October 2002- September 2007 bull market, October 9, 2007-March 9, 2009 bear market.

The first graph in Figure 1 shows that the S&P Banking Index data performed slightly better than the S&P 500 Index during the October 2002-September 2007 bull market until April 2007. After this date, S&P Banking Index lies under the S&P 500 Index until the end of the bull market in October 2007. This indicates that the problems in the banking sector actually started as early as in April 2007. It appears that only investors investing in bank stocks knew about it and it did not affect the broad market index until October 2007. Roughest the October 9, 2007-March 9, 2009 bear market period. It indicates that bank stocks performed worse than the broad market during this period. The S&P Banking Index starts falling sharply after May 2008 and it hits a low point in July 2008. It has a sharp increase after this until September 2008. This is the period when Congress passed a $700 billion dollar rescue bill and the Treasury started to provide equity capital to banks. However, the fall of bank stocks continued after September 2008 until March 2009 when they hit their lowest point in the bear market.

Figure 3: Performances of Bank Stocks: October 2002-August 2009 Reasons why your selected financial institution may have attained a better/worse

performance than the sector and the market. Bank of America is the largest U. S. Bank and the eighth largest financial institution in the world by assets, with IIS$2. 3 trillion. Out of the four largest banks in the U. S. , Bank of America was hit hardest by the recession mainly due to its purchase of the largest mortgage lender Countrywide Financial in 2008.

As of 2010, Bank of America had 5, 856 retail branches around the country, but planning to close 600 in the near future in an effort to reduce operating costs and raise capital. Looking at Figure 4, during the bull market of 2003 - 2007 Bank of America (SAC), S&P index(SOAPS) and sector index (ABACI) were all performing at similar levels but Bank of America was performing better due to the Housing bubble but as the graph shows when the recession kicked it, it was 1st noticed by the banks which caused for the index to fall, it was soon felt in the sector, however it took several months before it affected the economy as a whole.

The graph also shows as soon as the bear market started and due to the excessive exposure to the housing market, Bank of America and the sector's index fell dramatically with both reaching the lowest point in their financial history, although the economy was massively affected however the injection of Quantitative Easing and passing of the Fiscal Stimulus stopped abruptly the decline of the equity market. The supreme crisis almost led to the short term insolvency of the company. By the end of 2007, Bank of America had written off $bun losses and recorded a credit loss of $bun, due to the supreme crisis.

Moreover, at the end of 2007, Bank of America had about $ $1 1 , mom in its Cods out of which $8, mom was exposed to supreme. During 2007, it recorded losses of $4, mom associated with its supreme super senior COD exposure. The losses reduced trading account profits by approximately $3, mom and other income by approximately $mom. In addition, it positions, approximately $mom related to its COD warehouse, and approximately $mom to cover counterparts risk on the insured Cods. In the case of continuing credit crunch, the capital adequacy ratios of Bank of America almost led to short term insolvency.) Figure 4: Performance of Bank of America V. S. Sector V. S. Economy A: Acquisition of MBA B: Global Downturn begins C: Selling of Acquisitions (For more info see Appendix: Figure 7) The housing market remains very weak. Bank of America relies very heavily on a strong housing recovery in order for it to be able to return to its pre-crisis levels. However, analysts became increasingly pessimistic over the likelihood of a strong housing recovery. This means the Bank of America’s balance sheet will remain burdened by undervalued houses that are incredibly hard to sell off and liquidate.

This lack of liquidity will prevent Bank of America from taking advantage of other potential investments throughout the market. It must be noted that to a certain extent the uncertainty within the financial markets stems not Just from the rupture of the banking industry and impact of the financial crisis, but from the repeated state and regulatory intervention which has left markets unable to predict future moves or impact. The myriad market interventions have resulted in a reduction in the transparency of the market, as it become harder to tell the truly solvent institutions from those simply riding on borrowed time and money.

How has the credit crisis affected the behavior of the financial markets and the economy of your selected country as a whole? Financial Markets Substantial defaults by Supreme borrowers in the mortgage markets mainly started the U. S. Supreme credit crisis. The credit crisis paved the way for huge losses and several liquidations between companies and financial institutions which held large portfolio with mortgage-backed securities. Longboats (2010) show evidence which are consistent with the contagion through global markets since the credit crisis leading to researchers growing concern to study the U.

S. Supreme credit crisis within their analysis of the stock market. In addition, stock market with huge shocks because of global event or crisis such as the crash of 1987 (Chuddar 1996, Law 2006), the Asian crisis (Charitable & Roll 2002, Holder et al 2005, Law 2006, Levees 2007 and Guarantee et al 2010), the September 1 lath terrorist attacks (Charles & Darned 2006 and Nikkei et al 2008) were researched on. The Supreme credit crisis was initially detected on the real estate market when the average price of U. S. Home from the Q of 2005 fell by 3. % and the gains on real estate stopped abruptly in the IQ of 2006 (Christie via Commonly. Com dated May 16, 2006). Nonetheless, the credit crunch had slow contagion effects on the other financial markets because The National Bureau of 2007 (Isadora 2008). Therefore, further study can be done on the impact of Supreme crisis on stock market behavior during the recession. Furthermore, the bankruptcy of the fourth largest U. S. Investment bank(Lehman Brothers) at September 15, 2008 led to another massive crash originating from the mortgage crisis leading to a huge drop on stock market price (refer Figure 1).

Dooley and Hutchison (2009), research stated that at the beginning of Supreme crisis (mid 2007 through September 2008) here was a lengthy mild drop in U. S. Equities. The U. S. Stock market indices and emerging markets experienced a remarkable drop in September 2008 with severe volatility afterwards. The rationale specified were that the news of Lehman bankruptcy publication led to a massive impact on the equities markets and the impact spread to emerging markets, this verdict is supported by Colicky et al (2010) concerning the rise of volatility of Turkey price index (SIS-OHIO) after the bankruptcy of Lehman Brothers.

The Economy Effects By comparing the activities in the year-ago periods, the labor and property situated n the United States output of goods and services production shrunk by 6% of an annual rate in Q of 2008 and IQ of 2009. Furthermore, the U. S. Unemployment rate rose to 10. 1% by October 2009, the highest rate since 1983 and about double the pre- crisis rate. The average hours per work week dropped to 33, the lowest level since 1964, the beginning of data collection by the government.

The Wealth Effects During the crisis, the extremely wealthy lost reasonably less than the rest of the population, increasing the wealth gap between those at the top of the demographic pyramid and everyone else below them. Consequently in 2007, the top 1% that assessed 34. 6% of the nation’s wealth improved their aggregate fraction above 37. 1% by 2009. Basic American families and those “ rich-but-not richest” families Just below the pyramid's top suffered as well. Moreover, half of the poorest families did not experience any wealth drop throughout the crisis.

A survey by Federal Reserve between 2007 and 2009 of 4, 000 households revealed that 63% of all Americans total wealth declined during that period and 77% of the wealthiest families total wealth declined, whereas only 50% of those at the bottom of the pyramid suffered a reduction (See Appendix: Figure 4). How has the banking sector in the country you are analyzing been affected by the $1 trillion on toxic assets and from bad loans between January 2007 and September 2009 was lost by large U. S. And European banks. These losses were projected to exceed $2. Trillion from 2007-10. U. S. Banks losses were forecasted to hit over $1 trillion and European bank losses reached $1. 6 trillion. The International Monetary Fund (MIFF) estimated that U. S. Banks were about 60% through their losses, but British and rezone banks only 40% (See Appendix: Figure 3). From the offset, the companies affected were those directly involved in home instruction and mortgage lending such as Northern Rock and Countrywide Financial, as they could no longer obtain financing through the credit markets.

However, Over 100 mortgage lenders went bankrupt during 2007 and 2008 but in March 2008, anxiety that investment bank Bear Stearns would collapse resulted in its fire-sale to JP Morgan Chase and the banking sector crisis hit its peak in September and October 2008. Several major institutions collapsed, were obtained under threat, or taken over by the government such as Merrill Lynch, Lehman Brothers, Freddie Mac, Fannies Mae, GIG, Wichita, and Washington Mutual. During September 2008, the crisis endured its most crucial phase.

There was a bank run on the money market mutual funds, which normally invest in commercial paper issued by institutions to fund their operations and payrolls. About $144. 5 billion were withdrawn from money markets during one week, whereas $7. 1 billion the week before. This disrupted the chances of firms to rollover (trade) their short-term debt. The U. S. Government reacted by increasing insurance for money market accounts analogous to bank deposit insurance via a temporary guarantee and with Federal Reserve programs to purchase commercial paper.

The TED spread, a sign of apparent credit risk in the economy, drove up in July 2007, stayed volatile for a year, then rose more higher in September 2008, reaching a record 4. 65% on October 10, 2008. On September 18, 2008 in a staged summit, Treasury Secretary Henry Paulson and Fed Chairman Ben Brenan agreed with key legislators a $700 billion emergency bailout. Brenan allegedly advised them: “ If we don’t do this, we may not have an economy on Monday. ” The Emergency Economic Stabilization Act, which implemented the Troubled Asset Relief Program (TARP), was signed into law on October 3, 2008.

Without the ability to obtain investor funds in exchange for most types of mortgage- backed securities or asset-backed commercial paper, investment banks and other entities in the shadow banking system could not provide funds to mortgage firms and other corporations. This meant that nearly one-third of the U. S. Lending mechanism was frozen and continued to be frozen into June 2009. According to the Brooking Institution, the traditional banking system does not have the capital to close this gap as of June 2009: “ It would take a number of years of strong profits to generate sufficient capital to support that additional lending volume.

The authors also indicate that some forms of serialization are " likely to vanish forever, having been their lending standards, it was the collapse of the shadow banking system that is the primary cause of the reduction in funds available for borrowing. How has your selected bank been affected by the crisis? What measures has this bank used for helping with its particular situation during the crisis? Did these measures affect/ modify the trend of the banks share price? The financial crisis hit Bank of America hard, in order to stop its collapse Bank of America was given an injection of $bun (EYE. Bun) by the U. S. Government and a guarantee of $Bonn on potential losses on toxic assets that threatened to overwhelm the financial system. This was due to Merrill Lynch, which was taken over by BOA, reporting a $1 5. Bun loss for the Q of 2008 with BOA posting a loss of $1. Bun in the same quarter. In order to help out BOA with the acquiring of the ailing investment bank Merrill Lynch it received $bun from the controversial $Bonn troubled asset relief programmer (Tarp). BOA employed about 8, 000 people in the I-J and started slashing Jobs, with 1, 900 Jobs lost at Merrill Lynch in London.

Further injection was made from the imagining $Bonn of emergency funding after lobbying by the president-elect, Barack Obama. The U. S. Government decided to take a stake in BOA in return for the aid, which was intended to take up the losses on mortgage-related assets gained from Merrill Lynch. The bailout made BOA the biggest recipient of taxpayer money after Citreous. The deal was also implemented due to heavy losses on Wall Street, when BOA saw its share price slump 20% at one point, before closing down 18% at

$8. 2, while Citreous dived 18% and closed down 15. 5% at $3. 83. The falls wiped out the gains the two banks had made since a faltering recovery began in November 008. Furthermore, Stock markets in Asia rebounded as investors welcomed the BOA bail-out, with Japan’s Nikkei climbing 2. 6%. As a result of the bail-out, BOA agreed to cut its dividend to 1 cent a share from 32 cents, and cap executive pay – mirroring a concession made by Citreous when it was rescued in November 2008. The dividend cannot be increased without government approval in the next three years.

What is your forecast for the share prices of the banking institution, the sector and the country’s market in the short to medium-term? The summer and autumn 2011 stock market volatility are similar to the banking crisis in 2008. The difference between now and then is that some of the bad debt carried by banks that crippled the financial system has been passed on to governments (and their taxpayers). However, U. S. Banks still have uncountable and possibly dangerous level of bad debt. Due to ongoing Euro crisis, Debts are threatening to bankrupt several Southern European countries with Investors hoping a solution could be found.

However, when the harsh reality materialized that a deal was unlikely, stock markets plunged and the slump wiped out most of the gains made in the past year. Stock markets are difficult to value without the aid of experience. Somerset Webb says “ the ‘ cyclically-adjusted price-to-earnings ratio’ (CAPE) is the best bet” and it suggests the U. S. Market is ‘ not remotely cheap’. Andrew Smithies, a well regarded investor, estimated the US market was 67% overpriced in March based on CAPE. Huge government debt and weak economic prospects, due to ageing populations, mean the U.

S. Is likely to see wealth and shares will endure a slow decline, relative to inflation. The historical data of the last 100 years was assessed to forecast the performance of the U. S. Banking sector index for the next decade and the probabilities are in the table below PROBABILITY Down at least 20% Down at least 10% Down Up at least 20% Up at least 30% Up at least 40% Up at least 50% Up at least 100% Up at least 150% Up at least 200% 5% 6% up 89% 77% 59% 33% 93% up at least Summary and Conclusions In this paper, I have studied the performance of the U. S. Uncial sector during the October 2002-August 2009 period. My findings indicate that the U. S. Financial sector had an average performance, slightly better than the S&P 500 Index, during the October 2002-September 2007 bull market. During the October 9, 2007-March 9, 2009 period, the U. S. Stock market had the worst ear market in its history since the Great Depression. Since this bear market was mainly caused by a crisis in the U. S. Financial system, the U. S. Financial sector had a significantly worse performance, compared with the general market, during this period.

With anticipation of economic recovery from recession, a strong bull market started on March 10, 2009 led by bank stocks. An important factor contributing to bullish upsurge in bank stocks was a new fair-market-value ruling by FAST. Before the new ruling, banks were required to use the mark-to-market rule to determine the values of their assets. However, many mortgage-based bank assets, so called toxic assets, did not have a market value. Because of this situation, many U. S. Banks were notable to provide the urgently needed bank loans to business firms that could speed up recovery from recession.