

# Weekly Perspectives

Website: [www.lomam.com](http://www.lomam.com)

Email: [info@lomam.bm](mailto:info@lomam.bm)

[iraj.pouyandeh@lom.bm](mailto:iraj.pouyandeh@lom.bm)



## A Weekly View of Global Economies

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### North America

Last week, Microsoft's forward guidance disappointed investors' expectations. In addition, several earnings reports issued by tech firms were less than impressive, and Google-mania wasn't enough to prevent a sharp correction in the previously perky technology sector. At the same time, oil prices edged higher on supply concerns, causing more pain for the market as a whole.

Bullish sentiment has taken a bashing but isn't dead yet, among either individual investors or fund managers. They are sure to have another go at pushing the indices higher even though the challenges have increased. An easing of oil prices may simply provide a needed rationale.

It is a tough market to be in. Many hedge funds have had a miserable time, thus far this year. But the regular equity-fund managers have had it rough too, with a goodly number failing to beat their benchmarks. Some very big names have bit the dust, in what may turn out to be an annus horribilis for them.

In 2003, with the market trending up and high-beta stocks flying, the game was comparatively easy to play. You just needed to identify a trend and latch on to it. Timing skills weren't particularly important. As long as the trend lasted, you could profit by being long.

CTAs (Commodity Trading Advisers), too, had a field day. Most of them are trend followers par excellence, and played the commodity boom very profitably via futures contracts. As the saying goes among their coterie, "the trend is your friend until it ends". Unfortunately for them, the trend ended a while back and they have been pretty much friendless ever since.

Alas, cycles change. And, it takes skill to recognise what kind of environment you're in. Many CTAs and foreign exchange players were burned trying to play yesterday's game. Every time they thought they had identified a trend, it petered out and reversed course. But, hey, not everybody is complaining. Those who took to other side of the trade, profited at the expense of the loosing CTA and FX players. Three cheers for market efficiency.

This year, it has been difficult for most investment professionals to identify optimal style and direction. In a more challenging economic environment, mega-caps are supposed to be a safe play because of their financial strength, ostensible pricing power ...etc. Except that these heavies have thus far underperformed the smaller guys.

If investors thought that defensive sectors were safe vessels to board ahead of bad weather they were badly mistaken, as most of these boats developed serious leaks. So, holding their nose, they loaded up on cyclical, ignoring economic indicators that signal a coming slowdown. But, sooner or later, reality will catch up with them, necessitating a timely jump that may not be all that well-timed.

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Spitzer's campaign has devastated the ranks of insurance stocks, which may now be ripe for a bounce from oversold conditions. As though the travail of the insurance sector wasn't enough bad news, many banks have tabled iffy third-quarter earnings reports.

But that's not all. If the bullish flattening of the yield curve continues, the banks could feel even more pain. And remember that the financial services sector is the biggest component of a broad market index such as the S&P 500.

### Europe

Higher material costs, lofty oil prices and a surging euro have combined to squeeze the stocks of carmakers with a big exposure to the US market. Investors are checking their holdings for those European stocks with a significant dependence on exports to the United States. The problem is twofold: (1) slower sales, and (2) losses in translating dollars into euros. However, some firms do have an active currency-hedging programme.

### Asia/Pacific

With oil prices toppy and the yen getting stronger, Japanese stocks have been getting weaker. The recent earthquake had a minor economic impact but provided an excuse to sell, for those investors who were already edgy. Naturally, the exporters were hit hardest. Elsewhere in the region, there has been weakness aplenty, with the less volatile markets such as Australia, New Zealand and Malaysia holding up better than the rest. An easing of oil prices may provide some needed short-term relief for most markets.

### Bonds

Falling stock markets and rising crude prices have pushed government bond yields to the lowest level in many months. There is also a feeling in the market that the declining dollar will fill the coffers of Asian central banks with even more of the US currency, which will need to be invested in shorter-dated Treasuries.

### Currencies

It's been a bad week for the dollar, against a range of major currencies. A lot of things have combined to generate the desire to sell the greenback. Concern about the twin deficits, higher oil prices and the recent talk by some Fed officials that the dollar may need to depreciate further have fuelled the negative sentiment. Still, the decline has been so rapid that there's got to be a bout of profit-taking and reversion.

**Iraj Pouyandeh**  
*Strategist / Senior Portfolio Manager*

*Prior to joining LOM Asset Management, Iraj Pouyandeh worked for Sun Life Financial in Toronto, advising on the global economic and financial outlook and strategy for the company. Mr Pouyandeh sits on the LOM Investment Policy Committee, responsible for determining global asset allocation.*



LOM Asset Management Limited  
27 Reid Street  
Hamilton, HM 11  
Bermuda  
441-295-6999

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