

MARKET COMMENTARY IN THESE UNCERTAIN TIMES

Markets have continued their volatility in what has been an extraordinary few days. At the time of writing Lloyds TSB are in advanced talks with HBOS about a possible merger having seen AIG, the embattled insurer, being rescued by up to \$85 billion (£48 billion) in loans from the Federal Reserve some hours earlier.

The whole saga began last weekend when the Federal Reserve and a number of high profile banks were in talks to salvage the Lehman Brothers business empire. Our own Barclays Bank was one of few interested parties looking to buy the entire business but stepped back from the brink at the last minute recognising the problems relating to the toxic real estate related assets. We now know they failed to reach a deal and Lehman filed for bankruptcy. At the same time Bank of America bought Merrill Lynch in a deal worth \$50 billion (£28 billion) who were also thought to be in trouble writing down more than \$39 billion (£22 billion) of assets in the past year. The remaining giants of Investment banking, Goldman Sachs and Morgan Stanley may also come under pressure in the days ahead.

Worldwide equity markets took a tumble and central banks attempted to calm the money markets by injecting a further \$160 billion (£90 billion) into the system. This had some impact improving liquidity but short-term interest rates still increased significantly making it hard for banks to lend to each other.

So all eyes will now be on HBOS to see what happens but it is a fact that the company has not had any funding problems to date. It had been targeted as a perceived weaker bank due to its high exposure to the mortgage market. HBOS also funds more mortgages than its rivals by borrowing money rather than from savers deposits. Therefore, speculators have targeted the shares and hence driven the price down to a level where confidence is lost and the company a target for takeover. Elsewhere, world oil prices fell to \$90 per barrel from a high of almost \$150 and should ease inflation worries although in August the UK's annual rate rose to 4.7%, as measured by the Consumer Prices Index.

With so much bad news around it is difficult to be cheerful and the next few weeks and possibly months will continue to be uncertain until the banking sector is on firmer ground. We are approaching territory where shares values in the wider market are very attractive and at some stage investors will start buying. Unfortunately, timing is something none of us can predict so for those investors already in the market it is just a waiting game at the moment. 17 September