

# Schroders Quickview

UK Equities  
October 2008



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Head of UK Equities

- **Co-ordinated interest rate cuts proved insufficient to restore confidence**
- **Market meltdown has spurred the world's governments into action**
- **European banking rescue launched, whilst UK plan is accelerated**
- **Measures should be sufficient to stave off systemic risk, but equities to remain volatile and rotational**
- **Tremendous value in UK equities on a two to three-year view**

## UK government tries to put worst fears to bed

Global equity markets went into meltdown once again last week as even the co-ordinated efforts of the world's central banks proved unable to dislodge the persistent blockage in the interbank markets. Indeed, with Iceland's problems prompting yet another raft of de-leveraging, valuations appeared to lose their floor and the risk of systemic collapse suddenly became real.

With this threat since given further credence by the International Monetary Fund, the world's governments have been spurred into more radical action over the weekend. As a result, the Europeans now appear to have drawn up an initiative along similar lines to the UK's model, whilst our own plan has been accelerated in terms of both its detail and the quantities of capital being distributed.

### Saving for the rainiest day

With such large sums now on offer to the big four UK banks, it would appear that the UK government is trying to put the market's greatest fears to bed once and for all. Indeed, the scale of the capital injections is being based on some pretty dire forecasts about provisioning and write-offs in the hope that there can be no further worries about these names surviving even the very worst case scenario.

As far as the individual players are concerned, it was implicit in today's announcement that there will be varying degrees of equity issued and varying degrees of government ownership. Royal Bank of Scotland and the proposed partnership of Lloyds TSB and HBOS look likely to tap into these funds sooner rather than later, while Barclays remains confident that it can achieve sufficient funding in the private sector.

### Global authorities have the power to solve the crisis

All in all, we believe these measures should be sufficient to stave off the risk of systemic collapse, but that is not to say that prices won't wax and wane further on the back of additional de-leveraging and more generalised selling. In fact, there is a fairly strong chance that the equity market will remain very volatile and rotational for some months yet given the level of profit downgrades, capital raisings and general recessionary pressures that the UK has yet to face.

It will also be important over the next few months to see what happens in terms of credit spreads, further global interest rate cuts and the crucial stabilisation of the US housing market, which continues to underpin a lot of the debts.

Overall, however, we feel the world's governments have shown signs of getting ahead of the curve and we remain confident that both they and the central banks have sufficient power to head off the Armageddon-type scenarios being discussed. There also remains a tremendous degree of value in UK equities on a two to three-year view, of which we have continued to take full advantage.

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