



## Bargain shopping kicks in as investors see value

I'm currently meeting clients in Melbourne, Australia, and I can tell you that people here are as worried about the fate of the world economy as U.S. investors are. Most recently I have come to a few conclusions about what we have been witnessing in financial markets, and I think investors can find a kernel of hope in what I am seeing. We are in the midst of the fourth worst bear market in history. But it is clear to me that markets have already discounted, and in some cases overly discounted, what actually lies ahead for the world economy.

The extreme day-to-day volatility and turmoil are emblematic of a disorderly market that is characterized by forced selling and deleveraging, which has been exacerbated by some investors who have to sell before year-end. That forced deleveraging may be adding to the turmoil and increasing investor fears.

Certainly the litany of bad economic news is long. While I do not want to dwell on it, I will say that at MFS<sup>®</sup>, we expect to see worsening news on earnings, unemployment, and economic growth over the next two quarters. However, we are seeing positive signs as well. As commodity prices fall, we should see inflation receding. We need to maintain a balanced view of what is happening and to focus on what has been a remarkably resilient U.S. economy.

At this time, companies that make up almost 70% of the market capitalization of the Standard & Poor's 500 Index have reported third-quarter earnings, and about 65% of those companies have reported positive earnings surprises. Earnings guidance has been down but is still running higher than the long-term average, with 59% of the companies reporting that they expect positive results.

As you might have expected, earnings of financial services companies are down 95%. However, earnings, excluding those of financial companies, should rise 9% to 12% in the third quarter. That is a pretty impressive result given that it comes during a period when we have seen major bank, investment bank, and insurance company failures, as well as the worldwide intervention of central banks.

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Also as we saw, new and existing homes sales rose last month. That is a sign that prices are falling and people are out there hunting for bargains. This dynamic could be a precursor of stabilization in the housing market. Also remember, with the collapse in commodities prices, gas and heating oil prices throughout the United States have fallen dramatically.

Again, I want to urge investors to maintain a balanced outlook. We certainly are living through a tough period, but all the news is not negative. There are some positives out there. We are seeing signs of bargain hunting and indications that investors are rummaging through the valuation disarray that surrounds us at this point. In talking to our analysts, I believe that there really are good opportunities in both the stock and bond markets.

Source: MFS research

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