Press release

For immediate release: 30 September 2008 **LONDON**

Neil Dwane, CIO Europe at RCM, the active equity company within Allianz Global Investors, comments:

TARP still-born: farce and fact

“With the dramatic political events unfolding last night and resulting in one of the largest falls in the S&P 500 ever, the financial pain will remain for a while longer. Markets abhor a vacuum. It was a farce last week to see an incumbent Administration having such low credibility with its fellow policymakers that TARP was not approved and mostly not approved by the Republican Party.

“That Wall Street thought it could rush through a plan which so obviously bailed out themselves and offered only second line therapy to many US voters being foreclosed on their homes, was misguided. It was as misguided that with the markets already falling, and not driven by short sellers this time, the House of Representatives failed to approve this bill.

“Sentiment and confidence in the financial markets has now allowed eight banks to be rescued or go bust in eight days and politicians and policy makers are deluding themselves that this is now still an USA problem. It is ludicrous that last week European Finance Ministers were jubilant that this problem was not in their backyard…Hypo Real Estate and Dexia now spring to mind.”

“The global economy may now slow even faster as markets move from one set of weaknesses to another, possibly now moving from the financials to the real economy and more of its citizens.

So where do we go in the next few days?

“It remains an essential fact that something must be done to ease the financial systemic risks before it kills the US economy in particular where credit is so vital. Thus some sort of RTC (Resolution Trust Corporation) vehicle will probably be put in place but perhaps one that more equitably addresses the issues of Main Street as well as Wall Street. The next Administration will, I believe, enact one of the most reflationary pro-economic activity policies the world will have ever seen, together with the Chinese, Japanese and other powerful countries. But does Europe get it?

“It remains a farce that central banks are not now pouring huge amounts of money into the banking markets and taking any types of paper with a reasonable haircut as well as just pumping money into the economy. This may be inflationary medium term, but a depression is easily the worst scenario. We must see this week a coordinated cut in interest rates globally, including the BOJ, ECB, FED, BOE and others like the BOC.

“US Housing should be on track to be heading to the end of its downward path by the autumn of next year and thus policymakers should have all the plans in place to ensure the great global reflationary response between now and then.

“We are very nearly at the key point of capitulation in investor sentiment in the markets, but the longer term prognosis for the global equity markets remains good as we enter a world increasingly led by the billions of mankind now just emerging into the urbanised and industrialised society that is the OECD today. A tremendous generational buying opportunity has drawn near.”

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