Market Update

Contrasting messages from the financial sector and some of the business surveys continue to bemuse investors. What should we believe?

The worst of the UK recession may be over according to the Organisation for Economic Co-operation and Development (OECD) reported on 11th May 2009. The OECD is a respected indicator of economic health and reflects a number of surveys, which suggest the decline in some parts of the UK is bottoming out.

Indeed April 2009 may be seen as a turning point with the UK stock market rising together with retail sales. Sterling closed at its highest level against the US dollar for almost 6 months on 12th May 2009 reaching $1.527 and at the same time oil went above $60 a barrel indicating a pick up in demand. At the time of writing the FTSE 100 Index has recovered some 26% from its low point in early March 2009 and is the most significant rally we have seen since the start of the decline in 2007.

So is this the start of a ‘bull’ market on the back of an earlier than expected economic recovery or merely a short-term correction (‘bear’ market rally) that will fizzle out amidst more bad news? One famous economist once said that the stock market has predicted nine out of the last four recessions. In other words can it be trusted? The average bear market rally lasts for about four months so by late September 2009 we will probably know whether it is sustainable. Even if the financial system is repaired it is still a fact that the US and European economies will be left with a mountain of debt. This will impact on the long-term outlook for markets, particularly the UK, where we have unprecedented levels of debt.

So at this time we remain cautiously optimistic that perhaps the economic contraction estimates have been overdone and that the heavy intervention we have seen by central governments is starting to work and may indeed prove excessive should the brakes have to be applied sooner rather than later. It is more likely that any further recovery in markets will be difficult to gauge without more compelling information on not only our own economic fortunes but those of our trading partners.

In advising our clients it is always important to look at the long-term prospects for investment and align portfolios accordingly. Whilst it is true that asset classes have shown higher levels of correlation in this economic downturn and therefore rendered asset allocation less effective, it is also the case that no other strategy can be seen to have worked in such a dysfunctional market.

Lanson House, Winckley Gardens, Mount Street, Preston, PR1 8RY | Tel: 01772 555073 | Fax 01772 203688 | Email mail@taypat.co.uk