

Is the recession coming to an end and will stock markets continue to rise?

This week has seen more mixed news on the economy whilst stock markets have been posting significant gains. The FTSE 100 share index is up almost 40% from its low point reached on 9th March 2009. Similarly, the S & P index in the US is up nearly 50% since its low point. So what has been happening?

House prices both in the UK and the US continue to rise with the Nationwide reporting that July was the fourth consecutive month that prices had risen. This was tempered by the fact that further increases in the UK market would not be sustainable should interest rates start rising again. Hence, the recent surge in commodity prices has an inflationary impact on many western economies and may force central banks to raise interest rates prematurely. Emerging markets have also suffered though higher commodity prices with shares declining significantly from recent highs.

Another report out this week from Accountants BDO Stoy Hayward reported on manufacturing company failures in the UK being significantly up in 2009. Business failures, like unemployment, tend to lag the recession because companies will try to survive as long as possible before being forced into closure. So, whilst this news caught the headlines it is not altogether unexpected at this stage of the economic cycle.

Better news came from Europe last week in that both France and Germany returned to positive economic growth in the second quarter of 2009 thus signalling an end to the recession in those economies for the time being. The UK and US will be looking to positive growth later in 2009 and this news has been the main catalyst for the recovery in the UK stock market and those of many of our trading partners.

Is this stock market rally sustainable? Much depends on whether the economic recovery is sustainable and according to Ben Bernanke, Chairman of the Federal Reserve in the US, it is. Of course, he is expressing a view of the US economy that has less of an issue with government debt than the UK so it may be a while longer until we can be confident of a similar picture.

Most financial commentators point to the fact that shares have rallied on 'technical' factors and that analysts will return to 'fundamentals' once again to determine share prices from now on. September and October are notoriously poor for shares so in the short term markets may fall back. Looking towards the end of the year markets should respond to better economic conditions. We are not yet sure what legacy the 'great recession' will leave behind but it is hoped some lessons will have been learnt.