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## Recovery Special – Eye of the Storm

**As markets rally, France, Germany and Japan announce they are exiting the recession we look at what might happen next**

Stock markets around the world have been rising steadily over the last six months with the FTSE 100 gaining 22.3 per cent since the end of March. This market rally has left many arguing that the downturn is over, but for others it is merely a period of respite before the markets fall again.

**Performance of the FTSE 100 over the past 6-mths**



■ A - FTSE 100 TR [20.53%]

18/02/2009 - 14/08/2009 © Data provided by Financial Express 2009

**Source: [Financial Express Analytics](#)**

Speaking in June this year, economist Nouriel Roubini, who rose to prominence for predicting the global credit crisis, said: *"I see there is a risk of a relapse, or of a double-dip recession. The recession is not going to be over today. It's going to last another six to nine months."*

Countering the much cited '*green shoots of recovery*', Roubini stated that he saw more signs of '*yellow weeds*'.

Furthermore, IMF chief Dominique Strauss-Kahn, taking an even more pessimistic view, argues that "the worst of the global economic crisis may be yet to come". He believes that the stimulus packages have been too light and have not been enough to counter the effects of the crisis.

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The German and Japanese economies have benefited from the stimulus packages in place around the world. As big exporters, these countries have seen demand for their products rise as the supply of money has increased. This increase in demand has been enough to pull them out of recession.

The killer question is what happens when the stimulus packages end and governments stop printing more money. Will the economies of the world have recovered sufficiently to continue their upward trajectory without state help? Moreover, some analysts are arguing that the inventory correction has led to artificially positive figures. It is argued that producers ran down stock levels so severely as market conditions worsened, and they now have to restock but they are only doing this to a modest level. Such behaviour has been particularly prevalent in the construction sector.

**Whilst many fund managers have positioned their funds' portfolios to take advantage of the market rally, there are others who continue to take a cautious approach and instead choose to hold defensive stocks. Barmac Asset Management are one such group who are sceptical about the recovery.**

***"Part of the rationale behind the current market rally and the feel good factor in the economy is the 'sugar rush' effect caused by global monetary stimulus through central bank and government activity. However, we have witnessed the limits to these policies. Coupled with this is the fact that at some stage the UK government will be forced to reign in expenditure as tax revenues collapse. This decline in government expenditure will probably lead to a second dip into recession or at the very least will prevent a robust recovery.***

***"In addition the economy will be further constrained by the high levels of debt on the UK banks' balance sheets which will make them reluctant to lend to any significant amount. The combined overhang of government and bank debt will result in taxes being kept high and the economy remaining uncompetitive which will lead to a Japanese economic type scenario", explains Andy McCarthy, Chief Investment Officer (CIO) at Barmac.***

The British Chamber of Commerce's second-quarter survey confirms that businesses believe that any improvements we are seeing are part of a correction in the markets rather than a real recovery. The BCC concludes that *"there is a real risk that without a continued focus on limiting the impact of recession, the economy could drop off suddenly, adding weight to the argument that we are heading towards a W-shaped recession"*.

*End of article*