



Justin A. Urquhart Stewart

Justin is one of the most recognisable and trusted market commentators on television, radio, and in the press. Originally trained as a lawyer, he has observed the retail market industry for 20 years whilst at Barclays Stockbrokers and developed a unique understanding of the market's roles and benefits for the private investor.

The Great Sag

As the figures come through and the runes are cast by the legions of experts and economists, there seems to be a discernable trend developing. The politicians of all colours are telling us, and will continue to do so until we finally have an election, that they have the perfect plan to lead us from the 'slough of despond' to the sunny uplands of economic success and safety. Here we will find lush fresh green verdant fields of economic success; sadly however I think we can increasingly see that such optimism may well be illusory if not intentionally misplaced.

In all likelihood it looks as though we are going to be seeing an extended period of time with the image of a flat peat bog rather than sunny upland. Damp, soggy and difficult to get through it may be, but probably no more than we deserve after the recklessness of the past few decades.

So maybe this era may be known as the 'Big Sag' where, following the globe's largest economic stimulus in history, we could find ourselves sagging back into a duller period of lacklustre growth, weak supply of cash and capital, and a sour deflationary air.

Despite some stupid politicians still shouting to the contrary, we are not going back to the way things were before the financial crash. This, in spite of sounding so gloomy, does not mean that we have to go through a 1930's style Depression, but rather an extended period of lower, slower, growth. This of course will not be uniform as the national economies will be affected in different ways.

For the West and Japan or the post development nations, there is a need for the private sector to be reignited into action and investment, and especially as governments find themselves unable to sustain their expenditure and will be mired in debt for years to come. This revitalisation of the private sector will rely upon two factors in particular; firstly a willingness (with positive tax breaks) to invest in the first place and secondly a banking system capable of supplying the blood flow that is so vital. These are two areas where our government, both pre and post election could take some very decisive actions, but sadly to date show little sign of understanding, appreciation or intention.

Last week's US consumer confidence figures were truly awful, and in a nation which is so consumer dependent, not a good sign for any sustained recovery – back to the Great Sag. It shows still how little confidence there is and this is likely to continue as we can see with the sustained weakness in the US banking system, with 702 banks now considered 'troubled' and

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more likely to follow. There has been some improvement in earnings from the banks though, as we can see from the FDIC figures which showed that banks earned \$12.8bn last year and that was a significant improvement over the \$4.5bn earnings in 2009. To put that in perspective, earnings were over \$100bn in 2007.

The area of pain seems still be back where we originally started, which was the US housing market where, seemingly, still further write downs are going to be coming through. It was a member of the 7IM Asset Allocation Committee who quite correctly warned of the dangers of US housing as being the source of the pain to come and its potential ramifications – and that was back in 2006. However, for a bit of comfort here - in 1987 at the height of the Savings and Loans crisis there were some 2165 troubled banks. Well it's some consolation.

I hope that over the past few months you have been taking heed and reaping some benefit of the rising US \$, especially against our own somewhat beleaguered currency. However, there is also a considerable risk as the \$ rises, and that will be particularly to all of those who borrowed cheap Dollars at low rates and bought just about anything else. This is more commonly known as the 'carry trade'. Two years ago we saw the effect of this on the Yen where cheap Yen were borrowed to buy Icelandic Kroner which would have been fine so long as the Icelandic economy was ok – oops!

From March to December last year the \$ fell by some 17% on a trade weighted basis: since December it has risen by 8%. During this time we have seen the Chinese tightening bank reserves, which has impacted on commodities and certain emerging market indices and thus seeing money go back into the financing currency – the \$. Add to this the trauma of the Euro and the Club Med nations (also known as Club Lead) and this has pushed further nervous money back into the Greenback. Then just to put the cherry on the top the Federal Reserve raised its discount rate. All good reasons to encourage people back into the currency.

The net result is a stronger Dollar, not because of any domestic good news but rather from overseas worries. Who says the Dollar is no longer the world's reserve currency? The other side of this issue is of course the Chinese Renminbi which is pegged to the \$. As it strengthens – so does the value and strength of the Chinese economy – an interesting issue for the US whose populist politicians have found a perfect scapegoat to take the blame for just about all their failings.

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Worried about the downgrade of Sterling? Well a good friend did say you can ignore the ratings agencies as they very rarely anticipate any changes by initiating any downgrades; it is the market that makes the changes and the agencies make their moves with the benefit of hindsight. So has Sterling been downgraded? My cynical chum has merely pointed towards the spreads and says that in effect it has already happened and we are just waiting for the agencies to pluck up the courage to admit it. True or not, being downgraded has become more of a political totem than anything for the moment.

And finally.....Unusual news from Breckenridge in Colorado I believe — Authorities have concluded that no crime occurred when a Texas Christian University student's buttocks were branded with a hot hanger during a fraternity trip last month.

“All the evidence suggests that Amon Carter IV was a willing participant and the branding was not part of any fraternity initiation, as he is already a full member,” according to a Breckenridge Police Department. If this was just a pastime, you wonder what he had to do for the full initiation.

Investigators met on Thursday morning with District Attorney Mark Hurlbert, where it was concluded that there was no probable cause for a crime having occurred. Well you can at least appreciate the level of education as Carter received both second and third degree burns for the Greek symbols for his fraternity and a sorority that were burned into his bottom. Apparently plastic surgery will be necessary to repair the damage. I wonder if they can really understand the Greek letters?

Next time have a stick-on tattoo.

Have a good week.

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P.S. An anniversary of the week. The 5th March 1770 - 29th Regiment of Foot fired on a mob in Boston (Massachusetts) killing five and wounding six civilians. The rest, as they say, is history.

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