

Economic Views for Investors

by Roger Nightingale



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They say that risk goes hand in hand with opportunity,
let's hope so.

There's lots of the one. How much of the other?

American labour markets re-ported a hiccup last month.

Is the US economics recovery on track? Perhaps not. Last week's labour market data disappointed. The headline number for May's non-farm payrolls was strong enough, but most of the improvement was attributable to the Government's hiring of temporary Census workers. Private sector recruitment was negligible.

White noise or the start of something significant?

Was this a blip or the start of a new trend? Nobody knew, but it was certainly ammunition for those predisposed to be bearish. The personal sector, they said, was in no condition to develop the recovery. Pay rises were modest, credit was over-extended and sentiment declining. Could the corporate sector sustain growth on its own? Certainly not. Capital spending would respond principally to sales: if the latter faltered, the former would decline.

Politicians there are panicking.

Incumbent politicians were quick to recognize the vulnerability of the economy and therefore of their own tenure. They sought to empathise with the consumer-voter. Obama, his poll ratings under pressure, demonstrated the phenomenon. His reaction to the oil spillage in the Gulf was more manufactured than genuine. He wanted to demonstrate solidarity with hard-pressed voters. Logic was the first casualty of his rantings; and BP the obvious target.

Obama more than most.

Likewise Iran. Did he really want to behave there as had his predecessor in Iraq and Afghanistan? Of course not. But he didn't dare be sensible. He didn't dare acknowledge the risks of an aggressive foreign policy. He was riding a tiger and afraid to dismount.

Europeans are no better.

Americans aren't alone in pursuing policies long after it's clear they're not working. Europeans do so as well. The Commission, ECB and Strasbourg Parliament are all disasters. The policies that led to their creation ought to be reversed. Will they be? *Ne me fais pas rigoler.*

Their policy recommendations have been bizarre for years.

Europe isn't pulling together; it's pulling apart. The single currency and the constitution, foisted on unwilling peoples by sneaky bureaucrats, emphasise differences not similarities. Germans have no sympathy for delinquent members of the EuroZone; nor the latter for the former. As a bunch of free-trading but sovereign states, the EU might have prospered. In its current form, in thrall to dirigisme, it won't.

The orient's economy is currently strong, but will it last?

Asia is currently growing briskly. But it's not certain that the trend will last. If the EU stays dull and the US loses momentum, Asia's exports are bound to soften. That'll hurt employment and probably dent consumption, therefore. What will be the overall impact on Asian economies? How high are the "betas" of their GDP's? Possibly, like those of their stock prices, very high indeed!

The demand for raw materials may also prove ephemeral.

Commodity producers are likely to be at risk in these circumstances. Prices have weakened a little in recent weeks, and will probably continue to do so. But the chances of a rout seem to be low. They held up in 2007/8 and they likely do so again at the low point of the next cycle.

Britain is not well placed. The coalition inspires no confidence.

It'll not be a pleasant environment in which Britain has to operate; its economics being tough and its politics strained. How will the Coalition fare? It may grow in stature as time goes by, but the initial indications aren't encouraging. Cameron appears not to appreciate the magnitude of the task he's set himself. His promise to maintain front-line services (whatever they are) demonstrates a regrettable degree of complacency. As for Clegg, he's concerned only with changing Parliament's voting rules. His objective, he argues, is fairness: it'll be achieved, he continues self-servingly, if his Party, the least popular of the majors, is permanently in office!

Markets will be all right . . .

How will the securities markets fare? They'll probably hold up fairly well. A lot will depend on the Central Banks, though. In most countries, their mandate refers only to inflation; in a few, to inflation and growth jointly. That being the case, it has to be presumed that interest rates will be kept low and credit availability expansive.

. . . so long as central bankers stay on-piste.

It'll be only if the Bankers suffer one of their (admittedly recurring) bouts of delirium and neglect their mandates that investors would need to worry. If, for instance, as in 2006/7, they fret that credit is being mis-used and seek remedy through higher interest rates, we'll all have to duck. The consequence might be depression!

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