

Markets fall as investors seek safe havens

By Tom Stevenson , 04 May 2010

Chinese slowdown, sovereign risk and election uncertainty see investors run for cover

The confidence engendered by better than expected first quarter corporate earnings in recent weeks evaporated on Tuesday as investors were overwhelmed by a raft of worries both new and old.

As with many recent setbacks, China played a key role as evidence emerged that manufacturing activity in the engine of global growth is growing at its slowest pace in six months. Shares in Shanghai slipped to a seven month low on expectations that government action to slow a rampant property market might work too well and trigger a bigger retrenchment than the authorities really want.



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Despite better than expected manufacturing figures in the US – still by far the world’s biggest economy – and in the UK, the news from China is a reminder that a significant part of the economic recovery over the past year or so has been due to companies rebuilding their inventories. There are fears that a double-dip recession could emerge if stock rebuilding has simply covered up a lack of real underlying consumer demand.

Closer to home, the shocking scenes of violence on the streets of Athens are a reminder that solving the sovereign debt crisis in Southern Europe is not just about getting agreement from the International Monetary Fund and fellow eurozone members to stump up a multi-billion euro bridging loan for Greece. If the Greek people are not prepared to accept the austerity measures demanded by the IMF and Germans then the crisis is anything but solved by the bail-out because the money will simply be withdrawn.

A sign that markets don’t believe the end is in sight was further weakness from the euro – down 1% against the dollar – and falls in “Club Med” government bonds. Ten year Greek bonds are yielding close to 10% and those of Portugal (the next country in speculators’ sights) more than 5.5%.

Greek stocks fell by almost 7% on Tuesday, stung by comments from the German economy minister that the €110bn package was not designed to meet all the country’s financial needs over the next three years. The Spanish market hit a nine month low.

Elsewhere, commodities have been badly hit by the expected slowdown in China, with copper almost 3% off and the oil price receding despite supply fears in the wake of the BP spill in the Gulf of Mexico. A tax increase on

resources companies in Australia hit the Sydney exchange just as investors were getting to grips with a sixth interest rate hike in as many months.

On our own doorstep, here in the UK, the final two days of pre-election canvassing have seen investors grow increasingly concerned about the likelihood of an indecisive poll result. No election has resulted in a hung parliament for almost 30 years and never before has there been such an outcome at a time when the new Government faces such an urgent requirement to act quickly to put the public finances in order.

Markets dislike uncertainty more than anything and events around the world are providing that in spades at the moment. Uncertainty also creates opportunities, however, and invariably a sensible response to these kinds of jitters is to take a deep breath and look away from the screen.

Investing through this kind of turbulence can be very unsettling but investors should remember that this is a long term process. Economic recovery and the market growth that will follow is never a smooth process and there are bound to be stomach-lurching air-pockets along the way. Knee-jerk responses nearly always leave investors on the wrong side of the market's gyrations.

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