Forecast

Goodbye QE?

Growth expected, but not certain

In 2009 the performance of the world's stock exchanges became a key indicator of economic growth, and this trend is expected to continue with a focus on the emerging markets. Nothing is so certain though. In spite of the IMF's forecasted economic growth of 3.1 per cent during 2010, analysts and investors remain divided about this question.

While many commentators remain optimistic about the fortunes of the last quarter of 2009 continuing, which saw share prices rocketing with confidence on many of the world's stock exchanges, some of them still believe that a double-dip recession could still be on the horizon. As *World Finance* goes to press, the FTSE 100 is down by 6.38 points (5,488.01), and the Nikkei 225 index has taken the biggest hit as it has tumbled by 90.18 points to settle at 10,764.90. However, the Dow Jones Industrial Average is showing much more strength than this. Gains are showing of at least 39.98 points (10,652.88) at 3pm GMT.

Things are not looking so rosy for US stocks. In spite of soaring profits, investors' reactions were mixed upon hearing the news of investment bank JP Morgan Chase's quarterly results. The banking and financial services company reported what are described by industry speculators as "deep loan losses" in its last quarter of 2009, relating to mortgages and credit cards. It has therefore had to put money aside to cover them. This has raised investors' concerns about bank profits and whether they can build on the gains that have been hard won since March 2009. So while the DOW and the S&P 500 had hit their highest levels for 15 months before the results were announced, the markets nevertheless fell with the DOW index losing 100.90 points.

Emerging markets

Investment in the emerging markets is set to continue, and they will continue to grow. Investor confidence remains buoyant, but some analysts are warning that the bubble could soon burst. China has become the world's top exporter, and the pace of its economic growth is now leading it to take steps to ensure that its economy doesn't overheat and slide backwards. In fact the markets of India and Brazil are two shining stars for 2010. Mexico is also expected to demonstrate ongoing growth for years ahead of now. India is the hot ticket as it is expected to grow the most this year, beating the performance of the other emerging economies.

Much depends on the global geopolitical climate, though. This is after all a year when the previously bailed-out banks and financial institutions will see increased legislation emerging out of last year's G20 agreements, the planned end of quantitative easing (QE) and windfall taxes – particularly in the UK and the US – to claw back the money that was loaned to them to prop up the local and global economies. Some analysts nevertheless doubt that we've seen the last of QE because everything is still balanced on an edge that sits between growth and a return to a recessionary economic climate. QE may only serve to increase the banks' profitability, and nothing else.

In fact there is the question about whether the financial assistance the banks received should have been given to taxpayers instead in the form of tax breaks, which would stimulate much needed consumer spending. This is unlikely to happen, particularly in debt-laden countries like the UK and the US. Oddly enough, while interest rates are expected to rise by up to four percent in these markets during 2010, these governments are maintaining interest rate levels that are disproportionate to the level of their budget deficits. This is designed to enable the banks to restore their balance sheets. While it might help the banks in the short term, it is claimed that the UK – for example – will subsequently take 10 years to pay off its debts. Taxpaying consumers are going to pay the brunt of this cost.

Tip-toeing forward

Gold remains a good prospect for investors, and its price is expected to carry on performing well. It will reach price-levels of up to $1,300 an ounce (or more). However, the market's waves are still described as being quite choppy, and that's even though there is an overall upward trend. Gold and silver prices retreated at the time of press. This could be a sign that gold will soon enter a momentary consolidation phase over the coming months. It tends to weaken when the euro falls against the US dollar, but increases due to its current safe haven status.

Oil, in spite of the recent cold weather in Europe and the US, did not deliver the expected increases in demand. So analysts believe that its price per barrel will site somewhere between $75 and $100.

Like with everything at the moment, although future growth is anticipated, a stabilised economic and market recovery is still uncertain. The current growth phase could still be undermined by increased regulation, taxation, unemployment, inflation, interest rate rises and a lack of effective measures to stimulate consumer and business demand.