

Confidence is key to global recovery, says RCM

- **Fear and uncertainty fuelled the global meltdown**
- **There are signs that the macro environment is stabilising**
- **Concerns that the global financial system will collapse are slowly subsiding**

Andreas Utermann, Global CIO at RCM, the specialist global equity company within Allianz Global Investors, provides his latest global outlook:

“Since February, total bailout packages and fiscal measures totalling almost \$5 trillion have started to have a positive impact on market psychology. Some of the major ingredients needed for the market to normalise are starting to come into place. The key reason why the market was so dislocated over the past 12 months, and particularly since September when Lehman Brothers went under, was simply that any sense of certainty had completely evaporated from the market and it seemed that history was no longer a good guide as to what might happen next. The market was looking at not only a deep global recession, but a recession accompanied by uncertainty as to whether the financial system was going to be able to actually fulfil its normal role of providing credit. Against this background it became very difficult to apply any historic valuation matrix to the current market and that is why equities were so dislocated and corporate credit and other assets in such dire straits.

“There are positive signs that the macro environment is stabilising, including the recent news of much better earnings coming from some of the banks. The stress tests, particularly in the United States and the United Kingdom, turned out better than some people had feared, and the re-capitalisation of these banks is also proving perhaps slightly easier than people had feared.

“Deflation does not appear to be an imminent threat to global equity markets. Similarly inflation is unlikely to return in the next 6 to 12 months given the large output gap globally. This, however, doesn't mean that inflation cannot be perceived as a threat by equity markets and clearly as soon as recovery takes hold and confidence starts to come back, markets will want to see how the fiscal and monetary authorities are proposing to take back some of its liquidity boost.

Beginning of the end of fear

“Importantly, we are seeing the beginning of the end of fears that the financial system will collapse and not be able to return to its traditional role. Once this fear and uncertainty has passed, we are left with a traditional recession and at that stage market participants will be able to apply more regular market evaluations.

“That said, we believe that market volatility will continue. It is possible that we have already seen the bottom of the market, although this does not mean that we could not retest the bottom, even while things look much better than they did three months ago. Macroeconomic and earnings data will, in many cases, continue to disappoint for the next quarter or two and we may well see some very weak days. However, with equity valuations at historic lows and the increasing likelihood of the global economy stabilising, these days of weakness will be buying opportunities.

“Given the fact that we are seeing some stabilisation in the market, the economy should start to recover in Q4, and we would expect that anytime between now and late Summer we should see a more sustainable rally start to emerge as the market anticipates that turn.

- Ends -

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