March Market Commentary

Politics seems to impact more and more on economics – and somehow, always at the end of the month.

December ended with the last minute deal which averted the Fiscal Cliff in the US; January with Spanish premier Mariano Rajoy denying allegations of secret payments and at the end of February there were yet more problems in the US – and an election in Italy.

Italy went to the polls on the 24th and 25th of February to choose 630 members of the Chamber of Deputies and 315 elective members of the Senate. To no-one's surprise the result was confused: Pier Luigi Barsani's Democratic Party took the most seats and the biggest share of the popular vote, but the real winners were the Five Star Movement, led by Beppe Grillo, a former comedian.

The polling stations had barely closed before the new legislature was voting to end the austerity of the previous Italian Government: this naturally sent European stock markets into a tailspin and sparked predictions that a continued deadlock could only prolong Italy's recession.

It is hard to see countries such as Greece continuing with an austerity programme if Italy abandons hers – especially as Greek pharmacies run short of medicines, blaming a lack of cash to pay suppliers. As ever, the crisis and uncertainty in Europe rumbles on as the Germans continue to wonder whether they really need the problems of their Southern colleagues.

In the UK, the 'big news at the end of the month' trend continued, with the Eastleigh by-election being held on February 28th. It was seen an acid test of the Conservative party's popularity: bad news then, as they slumped into third behind the Liberal Democrats and UKIP. With the UK having lost its AAA rating from Moody's earlier in the month and a difficult Budget to look forward to, David Cameron must have been scanning the horizon for good news. As shops on the UK High Street closed at the rate of twenty a day and business confidence reached an all-time low, it was in short supply…

UK

With his party trailing Labour by 12% in the polls and the UK losing its AAA rating in mid-month, February was a depressing month for David Cameron.

Whilst the UK – for now – retains its coveted AAA rating from the other ratings agencies (S&P and Fitch) the downgrade from Moody's immediately pushed up the cost of the Government's borrowing and led to renewed criticism of Chancellor George Osborne. Interestingly, the UK stock market reacted favourably to the news, expecting that it would prompt another round of Quantitative Easing to stimulate the economy. The FTSE 100 index finished the month at 6,361 – a rise of 1%. But there were plenty of world markets that fell in February.

The £ fell to a two year low on news of Moody's downgrade and what was seen as an increasingly gloomy economic outlook. It touched $1.51 – which will hopefully mean good news for the UK tourist industry this summer.

February had started with the news that Britain was expected to have borrowed £64bn more than anticipated by 2015 and with RBS – 82% owned by the UK taxpayer – fined £390m for rigging the LIBOR market. The business confidence index – published by accountancy firm BDO – fell to 88.9, a 21 year low and well short of the 95 figure needed to indicate growth.

To no-one's surprise 'shop closed' signs continued to proliferate in the high street, with even John Lewis starting to make staff redundant. Closures continued at HMV, Blockbuster and the fashion chain, Republic.

There was a small sliver of good news in the housing market, with the Halifax reporting that prices were up for the first time in two years, rising 1.3% year on year in January. British Gas profits rose by 11% to £600m and whilst RBS may not have been good news for the UK taxpayer, it certainly was for its investment bankers. Despite turning in a £5.2bn loss for the full year, it still managed to pay out £697m in staff bonuses. "Curious and curiouser," as Alice might have said…

Europe

Much has been made in these bulletins of the sharp decline in the UK retail sector. Unsurprisingly, the same is true in Europe, with the French retail sector contracting for the 9th consecutive month and German retail also shrinking. However, the real horror story is in Italy, where the retail sector has now declined for 17 consecutive months.

Sadly the sector could not even be revived by celebrating European leaders, who finally agreed the EU budget for the next seven years after a 25 hour session likened to a 'bazaar.' David Cameron was understandably delighted at securing a £29bn cut: more sceptical observers of European budgets muttered, "We'll see…"

Figures for December showed that Germany recorded a €12bn trade surplus in the month, to give a full year surplus of €188bn – the 2nd highest since 1950.

Despite the good figures from Germany, the European recession looks set to continue. Both France and Spain will miss debt reduction targets and the problems in Italy have been documented above. The German and French stock markets were largely unchanged in February, but the Spanish market fell by 5% and to no-one's surprise the Italian market tumbled on the electoral uncertainty, finishing the month down 11.5%.

US

At the end of December a last minute deal between the White House and Congress averted the 'Fiscal Cliff' – a raft of tax increases that would have impacted on Middle America and threatened both the American and the wider global economy. Two months – in what BBC North America correspondent, Mark Mardell, refers to as "government by crisis" – and we're back there again.

This time the crisis is called 'Sequester.' The Democrats and Republicans are once again squabbling as they try to avert $56bn of automatic budget cuts which the President is convinced will harm the economy. At the time of writing there is no agreement and we can also expect Act Three to be performed next month: on March 27th a temporary budget that has kept the Government running since the last budget is due to expire. Hardly the way to organise the world's biggest economy.

While Washington fiddled, Warren Buffet went on his merry way, the world's most successful investor laying out $28bn to purchase Heinz – once again showing his faith in basic American brands that won't be knocked off course by the digital age.

Less than 18 months after Steve Jobs' death, Apple CEO Tim Cook was trying to placate angry shareholders worrying about a share price which is down 35% on its September high. Refusing to be appeased by Cook's claims of a 'pipeline of great stuff,' shareholders instead politely asked if the company wouldn't mind giving them some of its cash reserves – currently estimated at $140bn.

The Dow Jones index made a little ground in the month and broke through the 14,000 barrier – it closed up 1% at 14,054.

Far East

The major news in the Far East in February was political rather than economic, with North Korea carrying out a 'successful' nuclear test. With China and Japan still squabbling over the Senkaku Islands tensions and suspicion in the region will only remain high.

China is set to eventually overtake the US as the world's biggest economy: in 2012 it officially became the world's biggest trading nation, with figures putting Chinese trade at $3.87tn compared to $3.82tn in the US. Chinese imports are becoming more and more important to world trade – for example, by the end of the decade it is estimated that Germany will export twice as much to China as it does to France.

Despite this milestone, the Chinese stock market fell in February, declining by 3% to finish the month at 2,313. Hong Kong also fell by a similar percentage to end at 23,020 but Japan turned in the best performance of all the world's major markets, rising by 4% to finish at 11,559.

Emerging Markets

India announced an unexpected rise in public spending in a bid to revive an economy which has been hit by the downturn in Europe. However the Indian government also needs to cut the country's budget deficit – leading to new taxes on the super-rich and on businesses. Many commentators were critical of the plans, one calling them 'wildly optimistic.'

Most of the major emerging markets saw falls in February, with Russia, Brazil and India all down by between 3% and 4%.

The big winner of the month was the country that gave us one of the original banking crises – Iceland. The stock market there rose by 13%. At the wrong end of the league table for once was last year's perennial star performer, Venezuela, where the market tumbled by 15%.

And finally…

With the RBS investment bankers celebrating their bonuses despite the £5.2bn loss, the rest of the UK population naturally only had one thought: how can I get a nice fat bonus? One answer might be to manage a football team – specifically Mansfield Town. Having seen the Stags thump Barrow 8-1, Chairman John Radford did the only logical thing, he handed over the keys of his £80,000 Aston Martin to manager Paul Cox. All those teenage boys playing Championship Manager instead of doing their homework might not be wasting their time after all…