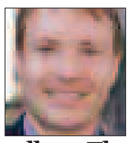
MARKET WATCH
STEPHEN BARBER

We've run out of sellers and there are few buyers, but positive unknowns are coming into play

There is light at the end of the tunnel



While not being particularly keen to call the bottom of this market, I have said before that we have pretty much run out of sellers. There are surely very few who are still holding on until "things get really bad". But while conditions have been ripe for traders, the volatility is hardly conducive to the more risk-averse, longer-term investor.

Add to that the steady trickle of bad economic news on both sides of the Atlantic, and an equally compelling – if obvious – statement is there are not very many buyers either. And it is not clear when and from where such buyers might emerge.

One of the most worrying pieces of economic data is the growth in unemployment, which in the UK has risen to 5.8 per cent. This is still considerably lower than the 10, 11 and 12 per cent rates suffered during the 1980s and 1990s, but after such a long period of low and stable unemployment, this, the first rising trend in 17 years, does not bode well for short-term growth prospects. The rise in the United States to 6.5 per cent has been more rapid and harder felt. It is little wonder that consumer confidence has fallen to, and continues to hover at, an all-time low.

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The good news is if I know this and you know this, then the market knows it too. And having taken a battering from the banking crisis, it has also discounted the potential effects of a recession that threatens to be as severe as any downturn of the past two decades. Of course, the recession could be worse than anticipated, with the Japanese comparison I wrote about last time being ever more often mentioned. But as with the rest of us, what the market has yet to learn are the effects of the economic packages being put in place in London and Washington – or even Chicago.

Watching power change hands can be intoxicating. And over the next few weeks the world will watch as US president-elect Barack Obama appoints several thousand officials to his incoming administration. With each one, a piece of the jigsaw falls into place, illustrating the shape and stance of a presidency that will begin its first term with more goodwill than any I can recall. As the dying Bush administration is replaced with the optimism of Mr Obama, longer-term policies and personnel will impress their prospects on markets thirsty for good news. Over here, the effects of interest rate cuts, capital spending and fiscal changes will also make their effects known.

A degree of consistency is, naturally, key. Prime minister Gordon Brown has not been shy to put forward plans for ameliorating the effects of recession. During his speech at the Lord Mayor's banquet he issued a thinly veiled warning to the incoming president about the dangers of protectionism.

Buyers will be looking out for the market discounting these positive unknowns into its valuations. The market cycle runs ahead of the economic cycle and so can be expected to recover first – even if the usual leader, banks, will be unable to offer salvation this time. Luring buyers back to the market will be a slow process, but there should soon be some reasons for despondency to turn to hope.

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