

Old and new uncertainties

The evidence for a soft-landing in the US economy has mounted and the earlier inflationary fears are subsiding with markets now considering interest rates to be close to their peak in both the US and UK. The key movements in oil, the euro and the dollar have overshadowed other activity, with the risks from spiralling oil prices causing the greatest concern. However, the dual interventions in currency and oil markets have defused the threat of aggressive tightening by central banks, in an environment of already slower growth.

The UK equity market has largely moved sideways this year, with the almost constant switching of sentiment between the so-called 'new economy'

and 'old economy' sectors. Baltimore Technologies – definitely 'new' – joined the FTSE 100 in March, departed in June amid the fall in high tech share prices, and returned in September after a revival of sentiment. By contrast, 'old' FTSE 100 stalwarts, Hanson and Scottish & Newcastle were driven from the Index by the 'new entrants' in March, returned in June but have since lost their places again.

Discernment

While such volatility may continue, investors appear to have been more discerning than we saw in last year's high-tech surge, taking advantage of periods of weakness to invest in technology stocks. Investors have also been

more selective in the stocks they choose, preferring infrastructure companies and those with brand names that can be marketed over the internet, rather than some of the dotcoms and more speculative plays. Meanwhile, non-cyclical growth stocks continued to outperform and financials, led by banks, started to rise.

While the US 'soft landing' scenario is unfolding, there are still uncertainties along the way, with political factors perhaps the least predictable. The US elections have created concern that the new President will erode the current surplus, with either large tax cuts or spending increases. In the UK, the fuel tax demonstrations posed the first major challenge for the Government ahead of a possible General Election during the coming year. Meanwhile, in the Middle East, recent changes to the political landscape are being compounded by the implications of the higher oil price. ■

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