Waiting for all the right signals

THE financial markets have been no place for the faint hearted in recent months as investors have had to endure trading conditions which have, at times, been particularly difficult and tested their resolve to the full. Significant volatility has been experienced in the world's equity and commodity markets.

The broadly sustained three year recovery in share prices from their nadir in the spring of 2003 was abruptly checked in May by a sharp correction to equity valuations.

Heightened concerns that the world's central banks were facing continued difficulties in getting inflation under control prompted fears that interest rates would have to be raised to levels above previous expectations in order to keep a lid on rising prices, and these served to act as the catalyst for the setback in equity markets. Share prices suffered all around the world to varying degrees but the hardest hit markets were those which had previously posted the biggest gains, most notably those of the emerging economies, as investors took money off the table and banked their profits.

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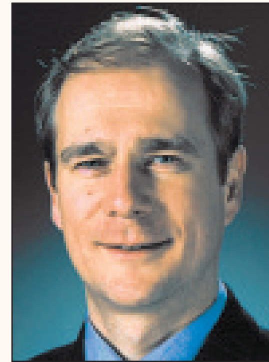
***Jon Dunn**, Senior Investment Director, Rensburg Sheppards*



The volatility of markets remained high during the early weeks following the correction in May, making for some difficult trading days, but it gradually began to die down, to the extent that the subsequent summer months were characterised by a gradual recovery in most markets. Indeed, much of the ground lost in the late spring has now been regained.

Sentiment has been supported by a renewing belief that the world's central banks will manage to engineer a soft landing for the global economy, whilst keeping inflationary pressures under control. The recent fall in the oil price has helped to bolster this perception.

However, risks to this scenario remain, not least in the form of the housing market in the US where there have been increasing signs of a slowdown in activity. The American consumer has been a driver of global economic growth in recent years, but could be vulnerable to the deteriorating state of the domestic housing market. Although consumer confidence has been supported just recently by the falling oil price, any rebound in the cost of crude could potentially spell trouble.

For the time being, investors are taking a sanguine view of the economic outlook. In the UK, the Footsie has settled into a trading range between the 5800 and 6000 levels, with the weighting of oil and mining stocks as constituents of the UK equity market holding back progress relative to a number of the world's other markets, due to the weakness which has been seen in oil and metals prices. In general, share prices remain underpinned by merger and acquisition activity, together with the strength of corporate earnings and dividend growth, and do not look expensive on fundamental grounds at current levels.

However, it is difficult to see the market making a significant and sustained break out above its current trading range until the data on inflation and growth give greater reassurance about the outlook for the global economy for 2007.

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Building the business on a growing demand

__Paul Hancock__ is chairman of Chapletown-based Bright Finance, who act as an intermediary between customers and its panel of lenders generating fast and efficient credit solutions. Paul has seen the consumer finance industry grow from strength to strength over recent years. But will the demand for credit progress in the same vein in the coming 12 months?

THE finance industry continues to enjoy growth due to the consumer credit boom and the demand for business is still very much there. Research has shown a continued rise in house prices across the country, leading to consumers borrowing against their property and using the equity tied up in it. For instance, the recent overseas property boom and people entering the buy to let market, I believe, have been fuelled on increasing house values.

Economic surveys show that in the UK there is still a huge amount of equity in the residential property market. I recently attended a conference at which a leading UK economist predicted that the Government may look at the house equity situation to ease the pensions crisis by utilising the value left in a person's property to help support them into retirement.

Another aspect of growth in this sector, I believe, is the generation factor. An older age group see borrowing as a taboo subject and perhaps would only buy from using up their saving. We now have a generation of people who want to live for today and will borrow to get what they want. As this group gets older, it will fuel the market.

As a relatively small and growing company, Bright Finance is building the business on the demand that is out there. Ninety per cent of our business is about consolidation. This is because consumers have spent money on their credit cards or store cards or have bought expensive items such as cars on HP, so they re-mortgage using the equity in their homes to get a better deal or reduce their outgoings. And with 57,000 different mortgage products on the market there is always a lender willing to lend to consumers.

You could argue that the big banks might be fuelling this debt culture, but they are also starting to take a tighter control of it with more stringent risk profiles and credit checking on consumers. However, the consumer will always want finance and many are starting to look at where they can get the best deal rather than just banks and building societies. This is evidenced by the fact that as a broker we are seeing more new lenders all the time, probably around three or four in the past year alone.

There has been a bit of a plateau in house prices values last year but recent indicators show property values are rising, albeit more slowly in comparison with previous years, which may have deterred some consumers from borrowing. But overall the economy shows no signs that we are about to see a fall in house prices and many people are in full-time employment, therefore confident about repaying their borrowings.

Another very important aspect for the consumer and the industry has been the increased regulatory environment. Our industry will become more heavily regulated, which is only good news for the consumer and something we welcome.