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Shares slide on fears of global slowdown

Some stock market observers have argued the recent retreat has been a long time coming. Stock valuations have become overstretched for this stage in the business cycle, with US economic data no longer supportive of equity markets and former Fed chairman Alan Greenspan warning the economy could move into recession later in the year.
What do you think has prompted this latest bout of risk aversion?
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Just desserts for a dovish Fed 28 Feb 2007 05:04 PM
by Alan Rohrbach

This week has brought a previous Fed Chairman into juxtaposition with the current Fed head in a way that the latter would rather have avoided.

Mr. Bernanke's refusal to foment a manageable contraction earlier in the cycle left him open to the worst implications of La Fontaine's observation, "Our destiny is frequently met in the very paths we take to avoid it." As I had noted once again back in late October, "While possibly an attempt to avoid Mr. Greenspan's rookie year tribulation and triumph (that messy little 'crash' thing), allowing further equity market escalation may leave Mr. Bernanke in a similar position before the end of 2007."

On a purely technical basis the US and European equity markets were recently as overbought as in all but the most aggressive phases of the late 1990's bubble. While a DJIA push to as high as 13,000 may still have been in the cards, breaking near term support always held the prospect of the correction becoming very volatile from such an overbought condition.

Now the question is whether Mr. Bernanke understands what Mr. Greenspan knew: He is not just the head of the Fed; he is the 'World's Central Banker.' If through nothing other than a marginally pernicious tendency toward conspicuous consumption (and the attendant trade deficits), the US remains one of the primary demand drivers for the rest of the world economy. And in that it also still has the primary influence over the global sense of well being which affects the balance of the world's economies and equity markets.

I sincerely hope the communications from him and other US financial luminaries in the next couple of days are focused in the underlying strength of the US and global economies, and not his sometimes ambivalent ruminations. We may soon need a Fed Chairman who is willing and able to move liquidity and interest rates around at a pace unseen for many years. However, what we actually get with the current head has proven problematic: Will it be Professor Bernanke, or The World's Central Banker?

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