

Markets on Edge after Election Day
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The 6th of May saw a serious fall in Stock markets across the world. In Europe, both the Pound Sterling and the Euro were weakened; the FTSE fell by nearly 81 points from the previous day alone. Shares in Asian markets fell without exception, and in America, the DOW Jones index showed a massive short term price drop; terrifying investors and shaking market confidence.

What has caused this worrying worldwide slump in the economy? And what does this episode tell us about markets in general?

The realisation of the national debt of Greece has put more pressure on the European Debt crisis, leading to widespread uncertainty announced by the Austerity Bill which could do anything but stifle the growth of the Greek economy. This in turn has shaken the market confidence in the Euro and its general acceptance throughout the European Community. The concerns that Greece will be unable to repay its £110bn Euro bail-out, or that Spain and Portugal will follow suit, has led to a global fall in equity markets.

Closer to home, uncertainty surrounding the UK general election has weakened the Pound, as investors fear a hung parliament will be unable to efficiently reduce Britain's deficit. Until a British Government is established, nervousness is likely to continue to rock the FTSE, although global factors will continue to impact on the larger multinational corporations. This affair just shows the close correlation between political uncertainty and economic downturn.

Lastly, the alarm caused by a big drop of almost 1000 points on Wall Street on the 6th was followed by a miraculous recovery, indicating that this was the result of a computer error. Importantly, this highlights the futility of short term speculation on the Stock Market and just how far-reaching the consequences of a few isolated events can be.

The events of May 6th will prove to be another historical day for the markets, however, the investors who understand the risk-reward relationship can have confidence that the markets will recover over time and look forward to the UK economy moving out of recession.

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