

THAT WAS THE YEAR THAT WASN'T

It is (alas!) the time of year when financial journalists take stock of the events of the last twelve months. Unfortunately, this year's retrospectives seem likely to induce melancholic feelings in their readers. The problem isn't that most equity markets delivered negligible – or even negative – returns (if stocks weren't volatile over the short term then there would be no risk premium for owning them over the long term). Instead, the sad fact is that the following events have dominated the headlines for much of this year: civil unrest, sovereign-debt downgrades, sovereign-debt defaults, a combined earthquake and tsunami, nuclear accidents, flooding, bankruptcies and rioting. It's almost enough to turn Saint Nicholas himself to drink. But while it may be hard to believe, things could have been far, far worse. So, as a counterweight to this unfestive gloom, we look back at what didn't happen in 2011...

THE EURO DIDN'T COLLAPSE

In a year that was, at times, dominated by the Eurozone debt crisis, predictions that the Euro's demise was imminent became a staple of the newspaper comment pages. It would be difficult to guess what the consequences of such a collapse in the Euro could have been; a second financial crisis and a severe recession would have been likely. Crucially, however, the Eurozone's fractious politicians did enough – just enough – to hold the single currency zone together. The Eurozone's structural problems, such as chronic uncompetitiveness in the south and underconsumption in Germany, have yet to be solved. But there was no run on the banking system and Greece didn't quit the Euro. In short, politicians showed that – when pushed – they could take the tough choices needed to avoid disaster.

THE UNITED STATES DIDN'T DEFAULT ON ITS DEBTS

After four months of near-continual crisis in the Eurozone it may be hard to remember that it was actually the United States' debt problems that were the main event during the Summer. Not only did Standard & Poor's strip Washington of its AAA credit rating, August also saw the world's largest economy, military superpower and issuer of its reserve currency coming within days of defaulting on its debts. The recent bickering over payroll taxes showed that there is little prospect of the bitter divide between Democrats and Republicans being healed any time soon. As in Europe, however, we should be grateful that – when faced with disaster – (some) politicians were prepared to set aside party interests aside in favour of the greater good.

PRICES ROSE - BUT HYPERINFLATION DIDN'T MATERIALISE

To the chagrin of monetary policy hawks and advocates of hard money, the world's central bankers continued to resort to unorthodox monetary policies to support demand (and asset prices).

The warnings from monetarists were stark: that quantitative easing (the Bank of England is currently in the midst of a £75 billion asset-buying programme) would inevitably result in hyperinflation. The wheelbarrows needed to carry piles of banknotes amid the hyperinflation seen in Weimar Germany were invoked. But while inflation in the UK hit an uncomfortably high 5.6% at one point, there are signs that inflationary pressures are easing. Despite Quantitative Easing, the money supply is actually shrinking as banks reduce lending to comply with capital adequacy requirements. Hawks beware: there could be more money printing next year.

THERE WAS NO GLOBAL DOUBLE-DIP RECESSION...

Signs of a slowdown in the global economy have mounted. But given the shocks the global economy has had to contend with, perhaps we should be thankful that it will be considerably larger by the end of 2011 than it was 12 months ago. Despite a contraction in output in the Eurozone, the OECD's latest forecasts are that the global economy will have grown by 1.9% this year. Just as importantly, there was no sign of the "hard landing" the bears predicted for the Chinese economy. GDP in China looks set to grow by 9% or so this year. Could things be better? Of course. Those growth figures look anaemic when compared to growth enjoyed during the "nice decade". But could things be worse? Undoubtedly.

So if 2011 wasn't the year that some of us might have hoped for it was, nonetheless, far from the disaster that the pessimists predicted. Let's hope that the lessons learned over the last 12 months will stand politicians, policymakers and the market in good stead in 2012. Happy New Year!

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The views expressed in this article are the writer's own and do not necessarily reflect those of the 7IM Investment Team.

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