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Market Tactics

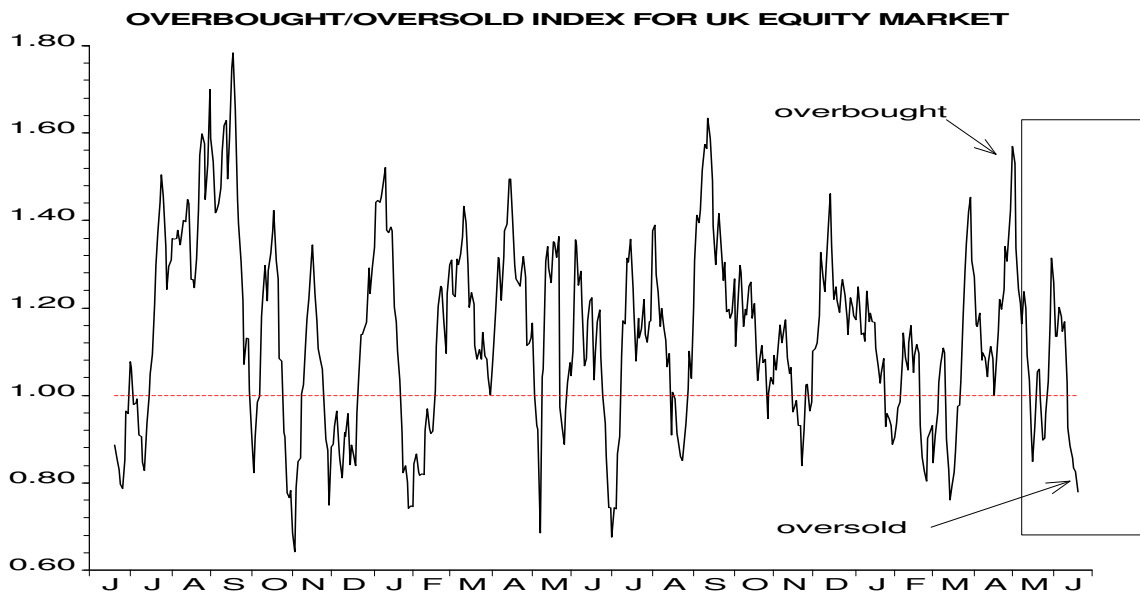
INVESTMENT RESEARCH

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There is support for equity markets in the midst of dreariness.



Source: DATASTREAM

Yesterday's note on [Where's the loss of momentum in the earnings estimates?](#) drew attention to analysts' earnings estimates. It pointed out that, despite the loss of recovery momentum – particularly for the US economy – earnings expectations for the S&P 500 had, in recent months, been revised upwards for this year. For the FTSE 100, the index most exposed among the major indices to the ebb and flow of the global economy, earnings expectations had remained remarkably steady.

While some modest downgrading of earnings estimates is likely, the note highlighted the fundamental underpinning that still lay behind equity markets and the basis for their limited reaction to discouraging economic news and the tedium of the eurozone's sovereign debt crisis. The other feature to which attention was drawn was their technical condition, a point discussed previously in connection with the US and Eurozone equity markets but repeated because of the oversold condition that had now developed for the UK equity market.

The chart depicts the oversold condition for the UK equity market. A rebound might reasonably be expected, maybe even one that sees equity markets head back to where they were prior to their sell-off. The earnings support is there and, as discussed in yesterday's note, there has been relatively little loss of recovery momentum behind the developing world, which is where a large and growing share of earnings for the developed economies now derives. Valuations have also improved by virtue of profit-taking and the drop in bond yields.

What equity markets need is a bit of good news or even some relief from the sheer dreariness of the eurozone's sovereign debt crisis and Greece's financial odyssey. A vote of confidence for Mr Papandreou and his government might be the catalyst that helps equity markets to regain their footing.

IMPORTANT NOTES

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