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No time for a Mars bar!

The Governor of the Bank of England told us that the road to economic recovery would "zigzag." The preliminary news that the economy contracted by 0.2% in the first quarter of this year, and that we have technically fallen back into recession, rather suggests a wrong turning. With economic growth essentially flat over the past twelve months, the UK finds itself in a slow moving traffic jam and the chances of seeing open road any time soon doesn't look promising. Many commentators are predicting that the Diamond Jubilee Bank Holidays will disrupt growth in the second quarter. It seems that it's 'work' rather than 'play' that is more likely to restore our errant recovery.

That the UK has technically slipped back into recession comes as little shock to many businesses and households. Few feel we ever left. The financial markets' reaction to the news was rather muted considering they had been expecting a small rise. Perhaps their thinking is that this preliminary number will be revised upwards, certainly based on recent business surveys which reflect a healthier environment. That must also be the hope of the Coalition which has chosen to stick to Plan A - one of austerity. Indeed, a few days earlier the Government had hinted at further cuts, only one month after the Budget - one which is being remembered for its tax break to the rich and the hike in price of hot sausage rolls and pasties.

The UK economy grew consistently from 1992 and until 2008 the UK had enjoyed a sixteen year period of unbroken economic growth. A repeat of this any time soon seems highly unlikely and whilst this may frustrate the Coalition, their options seem limited. Like many of our Eurozone neighbours the UK is engaged in a tough austerity programme aimed at reducing debt rather than fostering growth. At the same time, bank lending is still contracting and stubbornly high inflation continues to gnaw into household incomes - in total, a recipe for rising unemployment, weak consumer demand and stagnant growth.

Whilst the economy may be struggling to gain traction, the markets have until recently, been making progress. The contrast between UK economic growth and the recent impressive results from Apple couldn't be starker. Investment managers should remind their clients and themselves of this point.

We are investing in companies, not the economy. There will be winners and losers in all stages of the economic cycle - today is no different. Take Burberry and Aquascutum as an example. Both have a similar heritage and both are famous for their beige trench-coats. However, we recently learned that whilst Burberry is thriving, Aquascutum is heading into administration. There will be many similar stories in the coming years and the UK presents the active fund manager with plenty of opportunity. As we are continually reminded, this is not a normal recession and in this environment, a good stock picker should be able to achieve above market returns.

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