Equity Markets. Wait. Worry.

Most hedge fund managers waited too long when the **markets corrected sharply in May**, preferring to stay long of the market. As European sovereign default risk rose in the eyes of the media and investors, investors began to revise their views. The popular press and newspapers like the Economist began to write about the tight spot that governments are in, caught between fiscal stimulus and having to pay for it. Many hedge fund managers turned bearish and reduced their long bets.

Markets are in their third day of positive territory. This is likely a technical rebound from a heavily oversold position at the end of June. However, there is another risk. Its all too easy to be a bear when markets are falling but **the weaker the economic data, the more governments will have to abandon fiscal austerity** and return to priming the pump. It may be a disastrous policy in the longer run but human beings are very short term in their outlook.

I would expect markets to carry the rebound through for at least another 2 weeks purely based on the technicals. If the economic data is sufficiently poor, I would expect policy noises to lean towards stimulus again. I would expect investors who previously penalized governments for profligacy to change their tune and look to them for fiscal support. This is likely to sustain the market rally into a multi month rally.

The risks are: economic data comes out more positive and therefore policy becomes increasingly hawkish, individual earnings miss estimates.