A new mood of fear is pulling down markets

CNBC COMMENT
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THE TERM double-dip is over-used; our viewers always get upset with us if we refer to it too often. But where is this cycle going? It's certainly not looking good. February seemed to start off well with decent earnings reports and some stronger data from the US, but at the end of last week sovereign debt default fears took hold and risk aversion became the only game in town. Investors ran away from cyclical stocks as the markets priced in a greater chance that Greece and Portugal would not be able to pay back their debts. In January we were worried that growth was getting out of hand in China and a monetary clampdown was on its way; but now this new fear is riding rough-shod over markets, pulling down everything in its path. As one analyst put it – how can you worry about individual stocks when the market is worried about whole countries?

We have received mixed clues from businesses. BA talks of seeing an improvement in the fourth quarter and Ryanair looks set to return to profit this year. But BP and Shell both lost money in downstream operations and Electrolux forecasts only modest growth in demand this year. Unilever delivered better than expected numbers with volumes climbing as the year progressed. But the CEO told me it was more about the internal measures the Anglo-Dutch food giant was taking to address past wrongs on price, rather than any big pick up in demand.

Central Bankers at both ends of the spectrum have been caught on the hop by this mood-shift and what it could do to global growth. Last Tuesday markets sensed a cooling as the Reserve Bank of Australia kept interest rates on hold, rather than raising them as expected. The RBA is wrestling with a relatively strong China-driven economy and a global picture that looks more sluggish. It said further rate hikes might be necessary but that it was taking a breather. A pause for thought, and more data, seems to be de rigeur for central bankers as the Bank of England also took a break last week. It left the door open for more quantitative easing, should it become necessary, however.

Let's hope central bankers get this right. A pause is all very well but if the monetary crutch that has supported recovery is kicked out too soon, that unmentionable double dip could yet become a reality.

Anna Edwards co-hosts CNBC's Europe Tonight.