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Saxo Bank Quarterly Outlook: Investors will need to prepare for turbulent times

Market optimism is misplaced and recovery will be flat-to-w-shaped predicts Saxo Bank, the trading and investment specialist, in its third quarterly financial outlook for 2009.

Saxo Bank states that any prediction of imminent global economic recovery is premature. The fundamental imbalances that pushed the developed world into the financial crisis remain unaddressed, and the bank advises investors to “buckle up for a bumpy ride” when the summer ends.

Saxo Bank's Chief Economist, David Karsbøl warns that the market has looked too far ahead of the curve in pricing its recovery, and that the fundamental problems within the economy, such as the unsustainable debt burden leading to sub par consumption growth resulting in write downs and earnings recession, remain unresolved.

David Karsbøl says: “In developed economies, the consumer has yet to deleverage, and in developing markets, export-oriented economies will require more time to restructure for sustainable growth in the future. Risk appetite has increased in a nearly uninterrupted arc, as markets boldly predict a V-shaped recovery. However, we believe that the recovery will be flat-to-w-shaped and will take at least another 18 months to work its way through lay-offs, write downs and rationalisations”.

In its third quarterly outlook released today on saxobank.com, the Copenhagen-based investment specialist warns that irresponsible fiscal policy, creating massive – and growing – public debt, will lead to bond market dislocation.

Karsbol adds: “It is no surprise to see strong stock market bounces when the economy, as a result of the outright panic we have seen, has been so depressed. However, the degree and persistence of the rebound in risk appetite has been remarkable and surprised many, including Saxo Bank. Unfortunately, at some point during the next six months, we expect risk appetite to plummet again as the market realises that it has raced ahead of itself”.

The main question for the medium term will be long interest rates which, if they continue rising, could create an even more chaotic and volatile market environment than the already ugly one envisioned in the Saxo Bank's baseline scenario for 2009 called *Turbo-gloom and Anno Horribilis*.

“I would advise investors to fasten their seatbelts and buckle up for a bumpy ride as fear and negativity could make a strong comeback when the summer is over”, says Karsbol.

Link to the Quarterly Outlook:

Link to the yearly financial Outlook for 2009:

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