
Will the Bear Rally Last?

The five-week bear market rally has a head of steam up. From the 6 March low of 3122, the All Ordinaries Index is up almost 20%. It's hard to see what all the optimism is about – unemployment is up, the Reserve Bank of Australia is concerned enough to cut rates to 49-year lows and the OECD is now predicting that the world economy will shrink by 2.7% in 2009.

Anecdotally, conditions in Australia are the worst most businesses have experienced.

I attend a business gathering once a month where 10 business owners and CEOs exchange ideas and discuss business issues. In November and December, more than half our group didn't understand what all the pessimism was about. By February, eight of the 10 were describing conditions as the worst they had seen, ever (the other two are significant beneficiaries of the government's \$1.3bn school stimulus).

From a macro perspective, a substantial reduction in company profits has been a long time coming: margins and profits as a percentage of GDP were substantially in excess of their long-term averages (I was *only* four years too early, see [Profits won't defy gravity forever](#) from May 2005). The recession is accelerating the adjustment process. But profits had to fall.

Of course, that might all be priced in. Fund manager [Jeremy Grantham said](#) the market doesn't turn when there's light at the end of the tunnel, it turns when 'all looks black, but just a subtle shade less black than the day before.'

Perhaps we've already seen that day. It is futile trying to predict market movements. But investor optimism is certainly going to be tested during the next few months.

From a company specific perspective, the rally has taken place in a month-long window that is historically light on information. Most companies – banks being the major exceptions – report their half-year results in February and full year results in August. March and April are typically quiet. But between now and the end of June – confession season – we're going to see plenty of 'market updates'.

[Flight Centre](#) and [Qantas](#) are out of the blocks early but by the time 30 June arrives, they will have plenty of company. We're about to find out whether all the bad news was really priced in. Or not.