

Stock market bulls have got it wrong, warns Nouriel Roubini

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Global Research, April 22, 2009

[The Independent](#) 21 April 2009

Region: [USA](#)

Theme: [Global Economy](#)

Nouriel Roubini, the so-called “arch bear” economist who predicted the current financial crisis in 2006, added further gloom yesterday after he wrote off recent rises in global stock markets as no more than a dead cat bounce.

While an increasing number of analysts have in recent weeks urged investors to go back into equities, Mr Roubini, a professor at New York University’s Stern School of Business who has emerged as one of the most respected economic voices in the wake of the credit crunch, warned yesterday that he didn’t yet see a buying opportunity.

He holds little faith in the recent market rallies, which prompted some to suggest a recovery was underway. “I’m still cautious and bearish,” he said. “I believe we are closer to a bottom in the stock market than a year ago, but this is a bear market rally.”

Anthony Bolton, fund manager at Fidelity International, said last month that a bull phase had started, while analysts at Goldman Sachs have argued in recent weeks that “we are past the low point in the economic cycle”.

However, Mr Roubini, dubbed “Dr Doom” for his warnings about financial meltdown, said there would be more bad news in the next few quarters.

In particular, the economist warned of further dangers ahead for the financial services industry in the US. “I see financial shocks in the months ahead. Some financial institutions are in so much trouble we may have to take them over,” he said, before adding that losses in the industry could rise from \$1 trillion to as high as \$3.6 trillion.

Firms from across financial services will go out of business or be taken over, he said, particularly focusing on the bleak future for hedge funds.

Mr Roubini also disagrees with more optimistic forecasts for the US economy. In an interview published on Forbes.com yesterday, he said that the prediction of a 2 per cent growth rate next year was far too bullish. He called it at somewhere around 1 per cent. “So while we are going to be technically out of a recession, it is going to feel like a recession,” he added.

He blamed weak recovery, deflation which would dog the US for the next two years, and financial shocks for the lower-than-expected growth.

Investors should stay on the sidelines, he cautioned, but added that there was light at the

end of the tunnel. "I'm not a permabear. I believe that actually, if we do the right things, the US, Europe, Japan, but especially emerging markets can have a bright future of high economic growth."

Mr Roubini criticised market regulators, saying that while deregulation was positive "we took it to an extreme". He added: "Even financial markets need laws, institutions, rules; otherwise it is the law of the jungle."

Quoting from Oliver Stone's film Wall Street, he added: "Greed is good. There is nothing bad with greed. You know, that's what drives capitalism. But greed has to be contained by fear of losses and also realisation you are not going to be bailed out in bad times."

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