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European Credit Crisis

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Some of you may have already seen the news about the severe volatility in the markets today. Tomorrow morning's headline story will probably be the "largest single day drop in the stock market (the Dow Jones Index was down 990 pts or 9%). Although accurate, the headline does not tell the whole story as the market had a significant bounce off its low of the day finishing down 3%, while the large intraday drop was likely caused by a computer trading error.

Over the last week the stock market has given back about 5-7% of its YTD gains, but is still up slightly for the year. It is also important to note that during rally over the last 12 months, the market has experienced at least three market corrections of 10% before continuing its upward trajectory.

Most of this selloff is related to concerns about the spread of European economic weakness, particularly from Greece, Portugal & Spain, & Italy. Today, the market was looking for reassurance from the European Central Bank that it would support Greek government bonds. While there was some news from the President of the European Central Bank they would not let Greece default on its bonds, the market was hoping to hear that the ECB would actually buy Greek bonds in the open market, effectively monetizing Greek debt. When this did not occur, the selloff gained steam.

While the size of the European problem is not insignificant, it helps to put it in perspective- the GDP of Greece is the same size as the state of Michigan, and the combined GDP of Greece, Portugal, Spain, & Italy is $1.2 trillion. This is roughly half the size of the U.S. Sub-Prime mortgage market before its collapse in 2007. In the next few days, I expect the ECB to outline plans to assuage the market's concerns. If it does not, I expect more volatility and look for a continued selloff in all stock markets around the world until the markets find equilibrium.

Stay tuned!