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Market comment 16th February – Time to cross our fingers?

Has the bear market finally come to an end? Shares have certainly rebounded recently, taking heart from a more buoyant mood in Asia. Indeed, the Japanese stock market recorded one of its biggest one day rises ever, gaining more than 7%. Markets remain volatile, though, and it is probably too early to say that there are not any further dangers lurking, even if many major markets have managed to make up lost ground after a most unsettling start to the year.

If recent lows have indeed marked the nadir of this particular market cycle, then it would all have taken place in rather less than a year. Bear markets can be of a short duration – arguably the 1987 stock market crash saw all the action take place in two short weeks – but the after effects can linger. Given that we will have the continuing uncertainty over the European referendum hanging over our heads, it would surprise me if we managed to sustain a prolonged recovery.

Still, not all the news is bad. The announcement that HSBC is to retain its global headquarters in London, rather than move it to Hong Kong, probably has more to do with concerns at Chinese interference in our former colony than a lighter regulatory touch here, but it will have cheered George Osborne. It did at least take some of the sting out of remarks from the person charged with conducting a review of our banking system that our banks lack the resources to weather another financial crisis.

Part of the reason for Japan's recent surge was the depreciation of the yen. This has the effect of making Japanese goods more competitive in the global marketplace. It is worth remembering, though, that our bull market was brought to an end by attempts to devalue the Chinese currency, which drew attention to the weakening state of the economy there. In the end competitive devaluations get us nowhere.

Recent inflation numbers do suggest the prospect of deflation is receding. The early falls in oil and energy prices are gradually slipping out of the equation, so while inflation remains well below the target set by the Chancellor, it is rising a little and may gain a more momentum as the year continues. However, concerns that the global economy is slowing continue to dog sentiment, so it is a little early to break out the champagne.

2016 still looks likely to be a difficult year, but with shares reversing recent negative trends and the domestic housing market resuming its upward momentum, as indicated by a recent Rightmove house price survey, there clearly will be good days and promising opportunities. The important thing for investors is to remain patient. Volatile markets can be unsettling and technical factors may be at play here, but markets always overreact – in both directions. Let us hope the downside overreaction is behind us.

Brian Tora, who is a respected writer and broadcaster on investment issues, is a consultant to JM Finn & Co. Brian has enjoyed a long and distinguished career in the City. Any opinions expressed are his own and should not be construed as advice from JM Finn & Co. A version of this article may appear elsewhere in the press