The double-dip threat is growing – what should investors do?

It's shaping up to be another 'risk-off' day.

Asian markets fell back this morning, as did the oil price. Both Japan's Nikkei 225 index, and the Vietnamese VN index are now in bear market territory for the year, having fallen by more than 20% from their second-quarter highs. Japan in particular, has been hobbled by the strong yen, which hurts the country's exporters.

Of course, all of this could change by the end of the day. We might be back to 'risk-on' by the time the US market closes tonight.
But in the longer run, I reckon it'll take at least one more big sell-off to shake the nerves out of this market...

Is the US recovery nearing a standstill?

Despite rampant M&A (merger and acquisition) activity, investors are very jittery right now. It doesn't help that it's August, and so trading is seasonally light. But the malaise goes deeper than a simple summer lull.

The fact is, "we're not seeing sustained signs of recovery in US consumption, housing market, or job market," one Korea-based fund manager told Bloomberg. "Investors will be worried if the US economy appears to be entering a long-lasting slowdown phase, and some also question the sustainability of strong earnings."

They're right to be concerned. Last week's US jobless data was far worse than anyone had expected. The number of Americans filing initial claims for jobless benefits hit 500,000, the highest level in nine months. The figure for the previous week was also revised higher. That's not a great sign for US economic prospects, as my colleague David Stevenson demonstrates on this chart, which compares jobless claims (red line) with US GDP growth (blue line):

It's no wonder the property market is slumping

With this sort of grim unemployment picture, it's perhaps no surprise that things are looking gloomy for the housing market too. The trouble is, in a consumer-based economy, the housing market and the broader economy feed off each other.

It's a well-rehearsed formula, and one we're only too familiar with in Britain. When house prices are rising, you get the 'wealth effect'. People feel confident with a big chunk of equity at their backs. When your annual house price increase amounts to more than your annual salary, you don't feel concerned about treating yourself a little. And why not? After all, you deserve it for being such a smart investor.

And of course, a buoyant property market means lots of business for people involved in that market. From delivery drivers to washing machine makers, everyone benefits from all the little transactions and purchases involved in moving home.

Indeed, Moody's Analytics reckons that housing-related spending - on home construction and furniture for example - accounted for 15% of US GDP in the second quarter.

Housing could kill the recovery

As Bloomberg puts it, "housing led the US out of seven of the last eight recessions. This time, it may kill the recovery."

Markets are meant to price in future events. But they're not perfect at it, by any stretch of the imagination. And if the US does continue this slide towards a double-dip recession, I suspect that will result in quite a nasty sell-off in the stock market.

John Stepek, Money Week, 24-Aug-2010