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Is any early end to the credit crunch in sight? One critical question for investors at present is whether any end to the credit crunch is yet is sight. It doesn't appear to me that it is. Key credit market indicators signal increasing stress and dislocation; investors have yet to be reassured that the bad news for banks and all this implies for write-offs and balance sheets is yet out in the open; central bank surveys of bank lending attitudes highlight increasingly tough standards; and, crucially, the US housing market shows no sign of stabilisation. Given that it was the bursting of the US housing bubble which sparked off the credit crisis in the first place, the intensifying weakness of housing demand and home price deflation evident at present hardly augurs well for any early end of the credit crisis.

How sharp and prolonged an economic slowdown, both in the US and elsewhere? Another critical question for investors is how pronounced a slowdown in US, G7 and global growth is in prospect. 2008 GDP forecasts have been progressively cut in recent months, but my own view is that this process has further to run. Ominously, the global PMI survey slumped to its weakest level since April 2003 in January; and leading indicators of activity are increasingly weak, thereby signalling much slower growth ahead.

The debate as to whether the US will suffer outright recession in 2008 continues. And whereas the majority of forecasters still argue a hard landing will be avoided, the latest monthly *Blue Chip* survey put the odds at almost 50%. My own view is that the US economy will indeed contract this year, the result of the ongoing profits recession, credit crunch and impact of these developments upon business capex and employment. And if the jobs market keeps deteriorating, the free-spending US consumer will be undermined.

At present, moreover, most US economists are forecasting a strong growth bounceback in H2 2008 and 2008 with sell-side industry analysts predicting the same for corporate profits. It seems to me that such optimism is likely to prove misplaced, and that the headwinds bearing down on US aggregate demand will be sufficiently powerful and prolonged to prevent this. A good parallel is likely to be the sluggish recovery of the early 1990s.

As for the rest of the world, the reassuring notion of "de-coupling" is likely to be increasingly challenged by events. Europe and Japan have already begun to slow sharply, a process that has much further to run; and emerging markets won't prove immune.

Likely policy responses Last month saw two policy "surprises" in the US, in response to the deteriorating economic and market situation: a hefty fiscal stimulus package; and 125bp off the Fed funds rate. In the latter regard, though, the Bernanke Fed is likely to take rates a lot lower during the rest of 2008. Other G7 central banks, moreover, are likely to follow suit.

The inflation outlook There is much anxiety that high energy and food price inflation will cause "core" inflation behaviour in the major economies to deteriorate. I think this most unlikely. Wage inflation is extremely low in relation to unemployment; central banks' inflation-fighting credibility is high; a continuing loss of economic momentum will dampen pricing power.

Company profits Finally, there is the question of the profit share to consider insofar as recent years have seen profits in the major economies do very well at the expense of labour, which has been on the back foot as the result of deregulation, globalisation and productivity-enhancing IT investment. The key issue going forward is to what extent this is a cyclical or structural (and, therefore, sustainable) development.