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The UK economy has been struggling to avoid sliding into a triple-dip recession, and the announcement earlier today that the economy has grown by 0.3% in the first quarter of this year will have been greeted with a huge sigh of relief in the Treasury and among members of the coalition government. However, a 0.3% improvement is not much to shout about, but it will restore some of the confidence which recently has taken a pounding.

After Moody's removing Britain's top AAA rating in February, Fitch became the second ratings agency to do the same a week ago. The third of the big three agencies, Standard and Poor's, declined to follow its rivals but said that the British economy remains on "negative watch". Even the International Monetary Fund waded in when its chief economist, Olivier Blanchard, criticised Chancellor Osborne for sticking to his "A" plan and suggested it might be better to consider an adjustment to the current fiscal policy. As there will be a full IMF assessment of the UK's situation in May, the Chancellor saw fit to dismiss Mr. Blanchard's criticism as merely the opinion of one individual rather than the official IMF view. Still, the man in question has an impeccable pedigree: after studying in Paris, he obtained his PhD in economics at the Massachusetts Institute of Technology. He then taught economics at Harvard for six years before returning to do the same at the MIT, finally becoming the Chairman of their Economics Department. He has also been an adviser to the Federal Reserve Banks of Boston and New York, and in 2008, he was appointed chief economist at the IMF.

Our Chancellor, on the other hand, went to Oxford where he received a 2:1 degree in Modern History. After graduating in 1992, he held a few not very flattering part-time jobs, and in 1993 decided to try journalism. Having failed to gain a place on The Times' trainee scheme, he worked freelance on the Daily Telegraph's Peterborough diary column. In 1994, he joined the Conservative Central Office as a researcher, and he has worked for the Conservative Party ever since, advancing to become a speechwriter, special adviser and strategist.

We always find it somewhat worrisome when career politicians speak with great authority about subjects that they may, or may not, fully understand. This can become particularly irritating when, a mere week after a cabinet reshuffle, the new man in the post can be called upon to deliver words of wisdom when, quite frankly, he has not yet had the time to properly study his brief, let alone master it.

If Olivier Blanchard's criticism might be little more than an annoyance to George Osborne, it certainly is music to Shadow Chancellor Ed Balls' ears. After all, he has long been telling anyone who cared to listen that the coalition government have got their economic policies all wrong. That brings us to another point about politicians that we find maddening: not only do they appear to have an unbelievably thick skin, they are also blessed with a very selective memory. Was it not Ed Balls himself who was the co-architect of Gordon Brown's spending plans that left the country mired in debt?

So, why have Moody's and Fitch removed Britain's cherished AAA status? To paraphrase Bill Clinton's campaign strategist during the 1992 presidential election: "It's the economy, stupid!"

Since the coalition came to power in 2010, we have seen GDP data for 12 quarters, and 5 of them have recorded a shrinking economy. During that time, the outlook for economic growth has had to undergo several revisions, and the problem lies in the fact that these revisions invariably have all been downward, irrespective of whether we were in a positive or negative phase.

Whilst Fitch moved Britain by one notch from AAA to AA+, it did say that the UK government's continued commitment to reduce the budget deficit was the reason that it now put the country on a "stable" outlook, suggesting that there is less than a 50% chance of another downgrade over the next two years.

The currency markets' reaction to the news was relatively restrained. Historically, a country's credit rating downgrade could trigger substantial exchange rate realignments, but just as the markets largely ignored America losing its triple-A status in 2011, they did so again this time. The pound showed a little weakness, briefly trading down to 1.5225 against the dollar after the news broke, and then recovering somewhat. At the time of writing, it is quoted at 1.5560, which is considerably higher than the 1.4832 we saw in June 2010.

Still, since the beginning of the year, the pound lost over 6% against the dollar, and there are plenty of commentators that see it go even lower, a view we don't altogether share. Of course, weakness in a currency can also have its upsides. A weaker currency normally gives an added fillip for exporters as their goods become cheaper for foreign buyers. Unfortunately, the UK no longer has the manufacturing base it used to enjoy, and many of the benefits of the lower currency are offset by having to pay more for imported raw materials and components, quite apart from putting upward pressure on inflation.

If more expensive imports and the effects of quantitative easing - the latter albeit with a delay - were to push up inflation, that would be one thing. If, however, inflation were to go up whilst the economy is stagnating, that combination would make for a toxic and very dangerous mix.

Of course, the UK is not alone when it comes to dire economic performance. America has its own problems, as indeed does Japan. In the latter's case, much will depend on whether the bold plans by the Bank of Japan come to fruition, namely to turn what has been long-term deflation into 2% inflation within two years. The bank plans to do so through a quantitative easing programme, but it proposes to do it on a scale not seen before by the central bank of an important country. The Bank of Japan has long been accused of acting like a hapless bystander, but there now appears to be a huge shift in its attitude by opening the floodgates, and the proposed QE's magnitude is roughly twice that of America!

Closer to home, parts of the eurozone also are in deep trouble, and the dichotomy between what is termed the "core eurozone" and the periphery states becomes ever more apparent. Unemployment is a good indicator in that respect: whilst Germany is doing relatively fine (unemployment rate of 5.4%), the figures for Greece and Spain make for very different reading. Both Greece and Spain have unemployment figures of over 27%, but it is among the younger people that the problem really becomes significant: of the young Greeks and Spaniards, aged 16 to 24, nearly 60% have no job. The austerity measures in these countries may well marginally improve their debt situation, but the measures are seriously hurting their economies, and both remain deep in recession.

Quite bizarrely, investor sentiment, and with it stock markets, seem to have largely ignored the general malaise in the developed nations, particularly so in the eurozone. It is almost as though there is an acceptance that the bad economic situation has become a new kind of reality. If anyone needed reminding that such an acceptance is dangerous, investors were jolted out of their complacency when Brussels tried to force holders of deposit accounts in Cypriot banks to write off a large chunk of their savings. In order to avoid a serious run on the banks, they had to close their doors and limit withdrawals from cash machines. Even now it is not entirely clear which banks would hit their customers, and predictions as to the percentages involved vary. It would appear that holders of "uninsured" deposits, i.e. those in excess of €100,000, are likely to forego 60% of their savings.

A side effect of the so-called eurozone "bailout" will be the contraction of the dominant banking sector in Cyprus, and the latest guesstimates suggest that the Cypriot economy will shrink by some 9% this year. In other words, yet another eurozone country will be pushed into an economic quagmire.

As we said, the markets appear to have taken all the bad news in their stride: at the time of writing, the only negative performance year-to-date (-4.6%) is the BRIC region (Brazil, Russia, India and China), whereas the Dow Jones is up 12%, the DJ Eurostoxx up 2.6%, the FTSE 100 up 9.1% and the Nikkei 225 a staggering 33.1%!

The gold price, on the other hand, and rather strangely given all the problems in the world, has recorded a massive correction of 12.4% since the beginning of 2013, and mining stocks have fared much worse. There are several theories as to why this has happened. Some analysts say that the sell-off started in Japan where the gold price, measured in Yen, was at a record high. Japanese investors, who had been hoarding it for years, started selling gold very aggressively. Others point the finger at the government of Cyprus who decided to sell some of its gold holdings to help its recent crisis – a view we share. Yet another opinion talks about a Wall Street hedge fund that placed a massive order to sell 400 tonnes (worth about $20 billion!) at the critical time when the price was already falling, triggering a flash crash in the gold price and mining stocks. It may well be yet another example of computer trading programs, designed to avoid losses spiralling out of control, that can move the market irrationally. The gold price went down to nearly $1,300 per ounce, but it has since recovered somewhat to $1,430.

Holding gold has been seen as a hedge against the effects of the multi-trillion dollar quantitative easing engaged in by the US Federal Reserve, the Bank of England and the ECB which effectively is debasing the relevant currencies. However, the euro did not collapse, America looks a little stronger economically and China is slowing down less than previously thought, so that sentiment has changed a little, and it just proves that a small change in sentiment can have a big impact on the gold price.

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