Written by Simon Jessop
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A trader reacts at his desk at the Frankfurt stock exchange on Aug. 19, 2011. ***(Reuters/A lex Domanski)***

LONDON (Reuters) — The great August stock selloff has been far from uniform.

Some sectors are now pricing in a far bigger risk of recession than others, leaving islands of potential value for the brave.

Current and implied earnings metrics show some cyclical sectors, including chemicals, faring better than defensives such as telecoms, while other cyclicals such as paper have already been sold down to below their post-financial crisis trough.

The disparity is "genuinely odd", said Ian Scott, global head of equity strategy at Nomura, citing the example of the oil sector, where stocks such as Total have passed their post-Lehman collapse price-earnings (P/E) ratio low even though oil has surged in value since then.

"The oil price, as a demonstration of the fundamentals of that market, just seems completely inconsistent with where oil company shares are trading," Scott said.

Other cyclicals to have discounted a replay of the post-Lehman conditions "and arguably even something worse" include steel, construction and forestry stocks, Scott said, suggesting these all could be due a bounce if recession fears fail to pan out.

StarMine data shows a market-implied five-year annual earnings-per-share growth rate of minus 6.9 percent for paper firms, minus 2 percent for metals and mining stocks and minus 6.1 percent for construction firms, against minus 1.7 percent for the materials sector.

In others words, investors are pricing in an average drop in profit of those magnitudes for each year of that five-year period.

Stocks trading below their post-Lehman trough on a regular P/E basis include UK oil firm Cairn Energy, on 7.56 times from a low of 20.42, and Finnish papermaker UPM-Kymmene, on 6.87 from 10.96, Thomson Reuters data showed.

On a price-to-book ratio, meanwhile, 83 STOXX Europe 600 firms have passed their post-financial-crisis low.

But it's not all one-way traffic.

Firms with cyclical earnings that saw material cuts to earnings forecasts in the post-Lehmans trough, but are trading at multiples implying little in the way of a decline in earnings, include some in the luxury goods sector.

Examples include Burberry, on 21 times forward earnings, against 6.1 at the trough, and Bulgari, at 33.4 from 10.6. Five-year implied growth for textiles and apparel, meanwhile, is 8.8 percent, StarMine data showed.

Figuring out which sectors to play and why depends on whether you think equities have bottomed or if there is further to go, and given the sectoral dispersion, value hunters and short-sellers can both find cause to smile.

The macro view — and its impact on corporate earnings — is crucial, however, in determining whether August's double-digit slide, on slowing global growth and euro zone debt crisis concerns, is overdone.

"If we avoid a full-scale sovereign crisis, then equities have priced in too much," said Ryan Hughes, co-portfolio manager at Skandia Investments, which manages 2 billion pounds ($3.2 billion), although "we don't know if we're headed for disaster or we're averting it ... hence the uncertainty."

Top-down, the growth outlook is weakening, with the International Monetary Fund the latest to cut forecasts.

Set against that are the bottom-up views of many sell-side analysts and a belief that the U.S. Fed will backstop any economic slide.

The so-called "Ben Bernanke put" — the monetary policy safety net named after the Fed chairman that some feel will have to kick in as the U.S. nears recession — has yet to be enacted, although he leads a special two-day meeting later this month.

While a third round of quantitative easing could arguably justify some short-term positivity — especially given the rally after its second iteration — implied earnings growth in the market suggest bears are in control.

Aggregate analyst earnings growth estimates for the STOXX Europe 600 over 12 months remain at 10.6 percent, despite recent company downgrades.

A five-year implied growth rate of minus 3.8 percent shows investors are much more pessimistic.

Earnings uncertainty is also seen in the STOXX 600 price-to-earnings ratio, which looks cheap versus history at 8.7 times earnings against a 10-year 13.2 times average, although analyst revisions should start to catch up with the weakening GDP view.

While P/E could end up showing European stocks to be not quite as cheap as current valuations suggest, it does not necessarily point to a further slide in price, especially if the debt crisis is contained and growth chugs along.

"I don't know that it necessarily needs to fall, it could just do absolutely nothing for a prolonged period of time," Tom Elliot, global strategist at JPMorgan Asset Management said.

"I think people are reluctant to sell for a lack of alternatives," he said, citing low-yielding Treasuries, frothy gold and a central-bank-defended Swiss franc.

Scott, meanwhile, see risks to the upside.

"The market's moved to discount a particular scenario and on my estimation it's a pretty negative one," he said, suggesting some recovery "if things evolve and we don't have an outcome which is as bad as the market's priced".

(Additional reporting by Angeline Ong; graphics and additional reporting by Scott Barber; Editing by Andrew Callus)