

Future of the Bull Market

What is the issue?

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The upward trends in stocks may end sooner than expected with some economic and fiscal threats.

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What are the recent developments?

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- Global stocks kicked off the New Year by rallying to reach new lifetime highs.

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- Major indices across the U.S., Europe, and Asia witnessed significant gains in the year's first two trading days.

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- The strong start suggests that stocks may be all set to carry on their momentum from 2017.

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- Notably, the year saw major indices offering solid double-digit returns to investors.

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- A significant feature of the present bull market in stocks has been its broad-based participation.

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- It has kept both developed and emerging markets benefiting from it.

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- Indian stocks are among the biggest winners of the rally.

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- Macroeconomic indications such as improving economic growth in the U.S., Europe and emerging markets, better corporate earnings, and tax reforms by US administration could explain some of the euphoria.

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What are the concerns?

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- The liberal monetary policy since the global financial crisis of 2008 has clearly played a major part in fuelling the second-longest bull run in U.S. market history.

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- The extreme broad-based nature of the economic rally adds to considerable fears.

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- It may be driven primarily by excess fund flow into stocks rather than a secular improvement in economic fundamentals.

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- The weakening of the U.S. dollar and strengthening of emerging market currencies like the Indian rupee raises further suspicion.

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- All these are feared of resulting in excess liquidity.

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- The major risk facing the present bull market is the prospect of a quicker end to the accommodative monetary policy adopted by the U.S. Federal Reserve.

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- With the return of higher economic growth in the U.S., inflation is bound to rise and force the next Fed chair to raise rates at a faster pace.

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- This could deflate the rally in domestic U.S. stocks and likely to improve the yield on American assets.

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- However, it may also cause capital to flow out of emerging markets including India.

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- The many threats suggest that the loose monetary policy and resultant bull market may end sooner.

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Source: The Hindu

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