Future of the Bull Market

What is the issue?

\n\n

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

\n\n

What are the recent developments?

\n\n

\n
- Global stocks kicked off the New Year by rallying to reach new lifetime highs.
\n
- Major indices across the U.S., Europe, and Asia witnessed significant gains in the year's first two trading days.
\n
- The strong start suggests that stocks may be all set to carry on their momentum from 2017.
\n
- Notably, the year saw major indices offering solid double-digit returns to investors.
\n
- A significant feature of the present bull market in stocks has been its broad-based participation.
\n
- It has kept both developed and emerging markets benefiting from it.
\n
- Indian stocks are among the biggest winners of the rally.
\n
- 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.
\n

\n\n

What are the concerns?

\n\n

\n

- 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.
\n
- The extreme broad-based nature of the economic rally adds to considerable fears.
\n
- It may be driven primarily by excess fund flow into stocks rather than a secular improvement in economic fundamentals.
\n
- The weakening of the U.S. dollar and strengthening of emerging market currencies like the Indian rupee raises further suspicion.
\n
- All these are feared of resulting in excess liquidity.
\n
- 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.
\n
- 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.
\n
- This could deflate the rally in domestic U.S. stocks and likely to improve the yield on American assets.
\n
- However, it may also cause capital to flow out of emerging markets including India.
\n
- The many threats suggest that the loose monetary policy and resultant bull market may end sooner.
\n

\n\n

\n\n

Source: The Hindu

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering