Global Monetary Viewpoint

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This Stock Market Boom is Different

It has no roots in economic prosperity, and real rates are persistently low or negative

Increasing hedge premiums against monetary repression and rising monopoly power add to speculative excitement

Reflections on portfolio strategy amidst market euphoria

The S&P 500 is now up almost 10 per cent from its peak on the eve of the pandemic. At first sight, this is in contradiction of the tremendous economic devastation wrought by the health emergency, massive damage to capital stock valuations, much of which is collateral against loans, and the destruction of human capital, both present and potential. GDP has collapsed by double digits this year in France, the UK, and Italy; 5 per cent in Germany and 4 per cent in the US. As much as 5 per cent of GDP is now made up of pandemic war-type goods and services against COVID-19. The analogy is with uniforms and munitions in military conflict. This large proportion includes protective gear, testing outlays, medical supplies and research, and construction outlays, meaning that the fall in a prosperity index would be substantially more significant than the overall GDP declines.

The importance of and outlook for negative real rates

Stock market booms in history did not depend on low or negative real rates: This time is different – with important consequences

Gold's narratives go beyond real rates

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kind regards,

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Executive Summary

This stock market boom is different. It is founded not on the growth of prosperity but on sustained and growing monetary repression finding expression so far in a trend rise of 'hedge premiums'. These, in turn, have fed the frenzy of 'there is no alternative' (TINA).

Pandemic stock speculation and monopoly profits have been influential contributors to the overall story and momentum of the stock market.

A hedge premium, unlike prosperity, does not have an innate tendency to rise. A bull market dependent on an impossible continuing rise in premium is doomed unless an economic miracle occurs.

The run-up in the S&P 500 in recent weeks to levels near 10 per cent above the pre-pandemic peak has gone along with tremendous optimism on a post-pandemic boom starting as soon as next Spring, coupled with an early rise of inflation, meaning real interest rate fall to even more negative levels.

There are many grounds for scepticism about this narrative – along with other sub-stories, such as benign advancement of digitalization and increased operational efficiency.

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