

Finance & economics

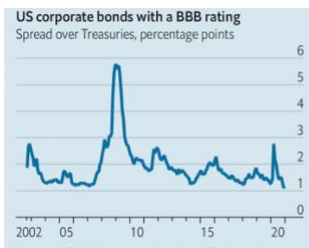
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The markets in 2021

Why the crazy upward march in stock prices might just continue

It is not hard to see why. An end to the covid-19 pandemic is in sight. Rich-world governments are rediscovering the joys of fiscal pump-priming. Real interest rates are so low as to make sky-high stocks look cheap (see [Buttonwood](#)). In short, the conditions seem ripe for further stockmarket gains. So ripe, indeed, that a persistent thought keeps surfacing in the minds of strategists. What is to stop stock prices worldwide going on a really crazy run?

Several things could get in the way of a market melt-up. One is the economy. Since April markets have been looking beyond the damage from covid-19 to the post-pandemic recovery. The discovery of workable vaccines seemed to bring that world closer. Economic indicators for America and China towards the end of 2020 were surprisingly strong. But the pandemic is not going quietly. More virulent strains of covid-19 have forced stricter lockdowns in parts of Europe. The harm to the world economy is likely to be more prolonged than hoped.



Paradoxically, positive sentiment is often seen as a reason to be wary, and that investors have got ahead of themselves. Indeed, 2018 began with much talk of a market melt-up, but ended with heavy stockmarket losses.

Sources: Refinitiv Datastream; Bloomberg; *The Economist*

A lot of the current optimism rests on the idea that policy will continue to support the economy. What if policymakers change tack? Continued fiscal support requires political action and agreement, which cannot always be relied upon. A natural concern is that stimulus might be withdrawn abruptly, as it was after 2010. So far,

Yet another risk, and one that keeps some market bulls awake at night, is resurgent inflation. Lockdowns and fiscal transfers have left rich-world consumers with extra savings and a lot of pent-up demand—fuel for a post-pandemic spending spree. Meanwhile recession has also taken out supply capacity: a lot of small firms (and some large ones) have gone under. With enough bottlenecks, a surge in spending could drive up inflation. A dynamic of this kind has been playing out