EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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A PROLONGED BEAR MARKET? I DO NOT BUY IT…

Despite the robust rally at the end of the week, all three major equity market indices in the United States (US) – the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite – posted weekly losses. In total, the Nasdaq has lost $7.6 trillion in the current decline. This is more than what it lost during the dot-com bubble and the COVID-19 sell off, at which times the declines were only $4.6 trillion and $4.4 trillion, respectively. The market is, however, a completely different beast now. But still, I cannot help but wonder if the market is not overreacting.

I understand that the long-term mismatch between demand and supply must be corrected. For too long, the demand for goods and services, but also for equities, was superficially increased by loose monetary policy. I even understand that capital, which is scarce, must be reallocated towards more productive enterprises during the process of creative destruction. But does that really mean that we must enter a prolonged bear market, which markets seem to be pricing in? Do investors really believe that companies like Microsoft, Amazon, Berkshire Hathaway, and Johnson & Johnson, to name but a few, will not be able to continue their growth trajectories over the next couple of decades? I do not buy it.

Usually, markets react the most if any new information is unexpected. But now it seems that, despite gaining more knowledge, investors continue to worry about the same issues. By now governments and corporations should know that the war in Ukraine will rage on. Surely, they should be able to plan accordingly – is that not what COVID-19 taught us? By now, we also know that oil prices will remain elevated, but we seem to have forgotten that the long-term demand for oil was already on the decline – were we not supposed to be done with oil by 2035? Someone can probably also tell the Americans that high inflation for a year or so is not the end of the world, especially not if you were the primary beneficiary of loose monetary policy and experienced wealth creation on a scale never seen before.

By now, the world should know that monetary authorities, even fiscal authorities, are not going to allow the world economy to sink into despair. The US Federal Reserve has given more guidance than ever before and has explained in so many words that it is not going to force the US economy into a recession. The markets must also, sooner or later, remember that China has their reputation to protect; they thus cannot afford to not reach their growth objectives. China will, therefore, do whatever it takes to boost growth; luckily, it has many more levers to pull. And then, somehow, we have forgotten about incredible India, super Saudi Arabia, and some African all stars who continue to contribute stellar growth to the global economy.

Maybe there is some more creative destruction that needs to take place, and maybe the sell off in markets must continue. But even if this is the case, recessions usually do not last too long. In the US, for example, recessions are seldomly longer than 17 months. Most likely, the markets are overreacting and creating the perfect buying opportunity for you and me.

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