Déjà vu

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I will try to shed light on the markets by reviewing their evolution after this last year of strong rises in most of the world indices. If I say this, we are not providing a great deal of additional information to what we already know, but let me continue with a series of arguments that will justify my opening sentence. Since the 2020s lows caused by the Covid-19 crisis, markets in general recovered at the same time to some extent, as growth companies took a bifurcation to continue to rise even above pre-pandemic levels. This is the path followed by the American market. In fact, the movement in the S&P500 index is explained by 20% of the index components and in particular its growth companies. A clear example are the FAANGs (Facebook, Amazon, Apple, Netflix and Google), which were chosen by the market (Mr. Market) as the big winners of the moment. On the other hand, if we look at Europe, it is clear that it has not followed the same bifurcation, as companies like this are hard to find. European indices are loaded with *old economy* companies (this expression was used in the dotcom era to differentiate between growth companies and traditional companies).

It is clear that the capacity for innovation and growth has always been in the USA and that is why, if we look at indices such as the S&P 500, they show us an unbelievable graph. In fact, all investment books, which we have all read at one time or another, explain that investing in shares usually gives an annualised return of 8-9% over periods of about 10 years, which is equivalent to doubling the investment. On the other hand, in Europe, taking the Euro Stoxx 50 as a reference index, this statistic is no longer so clear. If we look at the same periods in the American market, we will find returns that don't comply with the famous rule of doubling the investment in about 10 years. If we look at the Spanish market, this would be a clear example of what we are talking about here.

The ultra-expansionary monetary policy pursued by central banks has clearly paid off. It has never been applied with such forcefulness. And if we add ultra-expansionary fiscal policies, we have the perfect cocktail. This large liquidity injection is what has led to the markets rising with such virulence. From my point of view, the stock market recovery is very similar to that of the 2009 global financial crisis, i.e. a "V" recovery since the stimulus measures, both monetary and fiscal, began to be discussed. As has always been the case throughout history, the economy is governed by economic cycles, which always have the same pattern, first the stock markets are anticipated, then leading economic indicators, then corporate earnings and finally GDP data. If we analyse this pattern, we see that stock markets started to rise last year in April, at the end of the year leading economic indicators to start to improve, and then analysts started to raise earnings estimates for 2021, with a synchronised recovery of GDPs around the world already in sight. Therefore, the pattern that has been repeated so often over time has been fulfilled, as always. The small detail I would like to comment on is that the easy part of making money in the stock market is over: the rule of “anything goes” doesn’t work anymore. At this point, we have to be much more selective when choosing our investments. And all this against the backdrop of the inflationary fears that are sweeping the market these days. This inflation argument is being used to explain almost everything that happens in the markets. However, it is true that reactions and comments from Central Banks will be the key in the coming months, probably coinciding with the peak of the recovery with the arrival of the long-awaited summer. If they start to turn off liquidity in the USA *(Tapering*), we should prepare ourselves, as there will be curves and no bifurcations.