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Happy 9th birthday, bull market!

Many may not have noticed that the current bull market turned nine years old last week. The bull market was born when the S&P 500 hit an intraday bottom of 666 on March 6, 2009. It is the longest and strongest bull market in PSEi history and is the second longest and strongest bull run for the S&P 500 since World War II.

Is the bull market over?

The average duration of US bull markets is around seven years. As the current bull market is already nine years old, it has lasted much longer than the average bull run. Thus, many are asking if the bull market has exhausted its move and is about to die of old age. Moreover, the market's steep drop last month has caused panic, prompting investors to wonder if the bull market is finally over. In fact, this was the most common question that was asked in our investor briefing last February 24.

Inflation, rate hikes trigger market plunge

The market's sharp plunge last month was triggered by a higher than expected increase in wages. This fueled concerns that inflation may accelerate further and prompt the Fed to raise interest rates faster than market expectations.

Saber-rattling or trade wars?

A recent development which spooked the stock market is Trump's decision to impose steep tariffs on US imports of steel and aluminum. Trump barreled through with the tariffs despite heavy opposition from key political allies and important members of his economic team. Trump has offered exemptions for steel and aluminum imports from Canada and Mexico pending NAFTA negotiations. Thus, it remains to be seen whether the US President is merely saber-rattling in order to get a better deal from US trading partners or is serious about implementing more protectionist policies. Trump's recent pronouncements and actions remind us of negotiation tactics which he espoused in his book, "The Art of the Deal."

Resignation of top economic manager rattles stock market

Trump's decision to impose tariffs was not taken well by many of his political allies and economic managers, thereby triggering the resignation of his top economic adviser. Gary Cohn, a highly-regarded Goldman executive, was one of the chief architects of Trump's economic agenda and tax reform initiative. Cohn's resignation rattled the business community and caused the US market to drop. There is also concern that Cohn's resignation may lead to another exodus of key White House personnel.

Beggar-thy-neighbor

With Cohn's resignation from the economic team, many investors and economists are concerned that Trump may resume his protectionist actions. This may spark retaliation from countries which are affected by the tariffs. European officials have stated that the European Union will retaliate by imposing similar duties on its imports of American products. Similarly, China said that it stands ready to come up with a 'justified and necessary response' if Trump's protectionist actions escalate further. A full-blown trade war, underpinned by 'beggar-thy-neighbor' policies, will undermine global trade and dampen global economic growth. Moreover, based on the experience of the US in the 1930s, hardline protectionist policies may actually do more harm than good.

Expect the unexpected from Trump

In previous articles, we warned that Trump has a brash, combative, unorthodox, impulsive and unpredictable personality. Though protectionism was a mainstay in his campaign rhetoric, many politicians, economists and investors were startled by Trump's latest decision. This highlights the pitfalls of Trump's erratic personality and how it poses a risk to the US and global economies. On the other hand, Trump may actually be the best negotiator that the US has produced. He is excellent in playing high-stakes poker, as shown in the tariff exemptions that he offered to Canada, Mexico and other countries. It thus appears that the tariff imposition may just be a bluff by Trump to improve his stance ahead of trade negotiations with other countries.

Bull markets don't die of old age

In our recent article, we stated that bull markets do not die because of old age. Bull markets end because of an economic recession or a severe financial crisis. Looking at the current state of the global economy, one can see that we are not experiencing a recession or a financial crisis.

Last Friday's better than expected employment numbers, along with benign wage growth, confirm that US economic growth remains robust. With the US economy leading the way, global growth has become stronger and broader, spreading to other countries such as Europe, Japan and China. This has translated into strong and sustained corporate earnings growth which has fueled a global bull market in stocks. The other catalyst which is driving stocks higher is fiscal stimulus by governments of various countries. This includes the lowering of corporate taxes, a programmed hike in infrastructure spending and moves to ease regulations in certain sectors.

The bull is alive and kicking

Despite the extreme volatility and steep plunge of markets last month, we maintain our call that the bull market is not yet over. The performance of the US stock market last Friday and the ascent of Nasdaq to a new all-time high affirm our thesis that the bull market is alive and kicking. Though the prevalence of risks may cause the market to be volatile in the short-term, the long-term direction is dictated by fundamentals which continue to be strong. We believe that the bull market will live on for as long as it is supported by solid fundamentals, sustained economic growth and robust corporate earnings.

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