



Are Global Share Prices at the End of a Bull Run?

Description

Problems, problems, problems. That's all that appears to be ahead for global stock markets. The uncertainty surrounding Donald Trump's election, Brexit, the continued slowdown in China and ultra-low growth in the Eurozone mean that capital gain prospects are uncertain across the globe. As such, it could easily be argued that, for now at least, the bull run since the global financial crisis is at an end.

Clearly, predicting the near term future for share prices is never easy. However, at the present time it is particularly difficult since investors have no way of knowing how two major problems facing the world economy will pan out. The first is the policy agenda of President Trump. Although his campaign promises were what got him elected, he now seems to be aiming to govern as a pragmatic leader. This means that while he will seek change, he may fail to deliver on some of his more outlandish policies.

At least that's the current thinking. Trump could easily decide to follow through with his protectionist agenda and seek to renegotiate trade deals. He could also decide to step back from NATO and get tougher on China. At the present time, we simply do not know which policies he will pursue. And with investors fearing uncertainty, this could contribute to the end of the stock market's bull run.

Similarly, investors do not know how Brexit negotiations will proceed. Although the UK economy is the fifth biggest in the world and so does not have the same impact on global share prices as US economic performance, Brexit affects the Eurozone and challenges in negotiations could affect investor confidence in the global macroeconomic outlook. At this stage, the UK government has not started the process of leaving the EU and so there is a very long way to go. This could weigh heavily on share prices over the next couple of years.

Similarly, China's gradual slowdown in growth could put further pressure on the global GDP growth rate. While China is successfully transitioning towards a consumer-focused economy, there are likely to be shocks and challenges along the way. They have the potential to severely hurt investor confidence over the next couple of years and could be the spark that leads to a global bear market.

And with the Eurozone offering next to no growth at the present time despite an ultra-loose monetary policy being adopted by the ECB, the outlook for global stock markets is somewhat downbeat.

However, this provides Foolish investors with a tremendous opportunity. It means that over the coming months, top quality shares could trade at significant discounts to their intrinsic values. While they may remain at suppressed levels and lead to short term paper losses, in the long run history tells us that the global economy will recover. As such, even if the end of the bull run is in sight, long term investors may be able to make it work for, rather than against, them.

CATEGORY

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Author

peterstephens

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