



Why This Bull Market Could Keep On Running

Description

While 2018 has seen stock prices become exceptionally volatile, a recovery has taken hold over the last few months. In fact, the S&P 500 has been able to recover to the level at which it started the year. And while [volatility](#) could return at times, the overall trajectory of the index and other major global indices could continue to be upward over the medium term.

Market conditions

At the present time, the outlook for the world economy appears to be relatively bright. Certainly, there are set to be significant changes taking place, but investors seem to have factored in their risks. This means that further upside could be ahead – even though many stock markets are now trading close to their record highs.

For example, inflationary pressure in the US is expected to increase over the medium term. Higher spending by the US government alongside lower taxes could lead to an overheating of the economy. However, with interest rates already rising and the market expecting further increases over the coming months and years, inflation could be maintained at a modest level over the medium term. This could mean that trading conditions in the US and, consequently, across the globe remain relatively robust.

Likewise, loose monetary policy in Europe seems to have made a positive impact on its growth rate. With a relatively dovish stance expected to be maintained over the next few years, this situation could remain in play over an extended time period. This could create stronger trading conditions for businesses and lead to higher earnings and stock price growth.

Sentiment

Investor sentiment can change in a short space of time. Evidence of this can be seen in the correction of stock prices in the earlier part of 2018. However, the general feeling among investors continues to be one of optimism. Even though there have been a couple of years of major political change in the US and Europe, stock markets have generally risen. This shows that there may be an appetite for growth, and that valuations of stocks could keep moving higher.

Furthermore, with China's GDP growth rate stabilising in recent quarters following fears of a 'soft landing', the prospects for the world's major economies seem to be upbeat. This could help to keep business investment at relatively high levels, which could encourage growing profitability.

Risks

Although there are risks to global growth such as tension in North Korea and the Middle East, Brexit and a potential US-China trade war, economic conditions look set to remain favourable in major economies and for the majority of businesses.

Certainly, there is scope for negative surprises which could cause short, sharp periods of volatility as was seen earlier in 2018. However, with investors having been able to take such challenges in their stride over the last few years, stocks seem to be in a bull market which could have further to run.

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