Are Stock Markets in a Bubble?

Description

Are stock markets in a bubble? Some Wall Street strategists opine that a meltdown similar to March 2020 is highly possible. Other analysts say the bubble can't go on forever. A pin will pop it soon, according to a leading American bank. Three flashing signs somehow lend credence that a market selloff could be in the cards.

Extreme fiscal policies

The rallies of the stock markets in the U.S. and Canada from COVID-lows in 2020 were spectacular. However, the **Bank of America** said the extreme policy of the government fueled the extreme rally. As a result of the Federal Reserve's monetary policies and fiscal stimulus packages from Congress, the balance sheet expands to record levels.

In Canada, the deficit in the first four months of the 2020-21 fiscal year has reached a staggering $148.6 billion. During the same period in the 2019-2020 fiscal year, the figure was just $1.6 billion. Regarding the transfers to Canadians such as employment insurance, emergency income support, senior and child benefits, the level stood at almost $87.3 billion.

Inflation spike

Although many analysts expect economies to pick in 2021, inflation could rear its ugly head. If it happens, expect stock markets to pull back. In the U.S., Wall Street strategists and bond market traders warn of rising inflation from its current dormant levels.

The Feds believe some inflation is good as it indicates economic growth, giving them room to act in case another crisis comes that will demand monetary support. Meanwhile, the Bank of Canada expects the economy to contract in the first quarter of 2021, warning that the new round of lockdowns will affect workers in high-contact service industries.

Pandemic’s uneven effect on the labour market

Another downside risk is a worse-than-expected vaccine rollout in the first half of 2021. Canada’s central bank believes the return to lockdowns will worsen the pandemic’s uneven effects on the labour market. While the Bank of Canada doesn’t see inflation hitting 2% until 2023, a complete recovery from COVID-19 will take some time.

A defensive asset to own

Every stock market investor must have a defensive core holding to mitigate the risks of an economic meltdown. **Fortis** (TSX:FTS)(NYSE:FTS) can calm your fears and protect your capital in the event of a bear market. The utility stock is best for risk-averse investors because of its bond-like characteristics.

If you have Fortis in your stock portfolio, you don’t need to sell despite the dire forecasts. This $24.32 billion electric and gas utility company has time and again proven its resiliency amid recessions. It’s one of North America’s largest utility firms. Fortis operates 10 utility assets in various jurisdictions.

About 99% of the company’s assets are regulated. Because long-term contracts support the utilities, Fortis will continue to generate stable and recurring revenues come hell or high water. Income investors will keep receiving dividends no matter what. At present, the stock price is only $52.11, while the dividend is a decent 3.88%

Pothole in the first quarter

The upswing in the summer and fall of 2020 somehow spared Canada from a worst-case economic scenario. However, the Bank of Canada forecasts real gross domestic product to decline by 2.9% in Q1 2021 versus the same period last year. It should improve if severe restrictions ease in February. My advice to investors is to remain vigilant despite a resilient stock market.

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