Australian Standfirst

The 2025 US-Stockmarket Bull Run:

Catalytic effects of MMT-Driven Expansion, Capital Stack Crowding & Keynesian Growth Dynamics

Portfolio Attribution

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In the realm of opportunity, the most evident prospects often lie hidden in plain sight, overlooked by pundits but discerned by the perceptive. This truth is exemplified by the recent revelation about America's iconic Bald Eagle. For centuries, this majestic bird has been synonymous with the United States, its image adorning currency, official documents, flags, and government edifices. Yet, it took the *eagle eye* of Preston Cook, a 78-year-old Minnesotan, to uncover a startling oversight: the Bald Eagle had never been officially designated as the national bird. Cook's meticulous examination of official records and subsequent advocacy led to a swift rectification. Just two weeks ago, the American House of Representatives passed a bill formally declaring the Bald Eagle (*Haliaeetus leucocephalus*) as the country's national bird. This episode serves as a poignant reminder that even the most seemingly obvious facts may harbour surprising revelations, waiting for the astute to see what is right infront of them.

It is tempting in financial markets, as we approach a new year, to assume that the clock resets and we start anew. Whilst it is true that performance is typically measured in yearly increments, it is also important to recognise that context matters. Some years, like 2021 or 2023, follow periods of falling equity prices and low valuations, while others, like 2025, come after already strong rallies and the convergence of Modern Monetary Theory, or MMT, with traditional market dynamics, creates a catalytic backdrop for the anticipated 2025 market surge in US equities.

Cite:- MMT, 1 April 2019

Cite:- What People Misunderstand About Investing In The 2020's: Where The Outperformance & Money Is Being Made, 28 March 2024

Cite:- The Sino-J'AUKUS Great Pacific War: Triggered By '26/'27 Inflation Resurgence & MMT, 28 June 2024

Cite:- The Political Consequences Of Reflation In 2024: Reflationary Induced Inflation Shakes Status Quos Of Germany, US & Asia, 14 November 2024

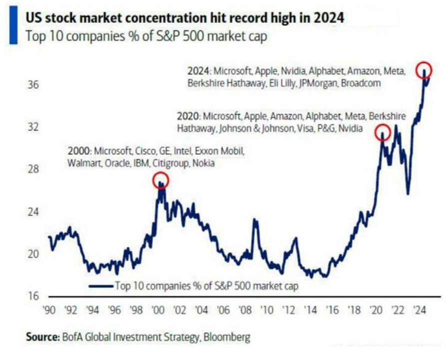
By advocating for expansive fiscal policies without immediate concern for deficits, MMT has created an environment of abundant liquidity and this reflationary approach has supported government spending initiatives aimed at fostering full employment and economic stability and the resulting infusion of capital into financial markets has bolstered asset prices, providing a strong foundation for continued equity growth. Although concerns about inflation persist, the stock market has historically benefited from such conditions as corporate revenues and earnings adjust upward.

The dynamics of capital allocation have also contributed to this bullish momentum; investors seeking higher returns have increasingly moved up the risk spectrum, compressing the Equity Risk Premium, or ERP, and favouring equities over fixed income assets, which were *Crowded Out* by consecutive Quantitative Easing, or QE programmes rolling forward since November 2008.

Cite:- Quantitative Easing & Why Financial Markets Appear Complex: Corroboration 'QE' Is The Only Game In Town, 29 October 2020

Cite:- Understanding Reflation & Central Bank Liquidity During A Taper Tantrum: 'Treasury Switches', FIMA Repo Facility & Other Market Microstructural Reforms Are Bullish For Eurozone, Japanese & US Blocs, 14 April 2022

US Stock market concentration hit a new record high in 2024



Cite:- Understanding The Financial Markets Tumult of 2022: Maintaining Portfolio Quality In The Era Of Quantitative Cheating, 19 June 2022

The spectacular rally in US equities that began in October 2023 and continued through 2024 has been partially fuelled by the implicit adoption of MMT principles by policymakers. The S&P500's rise in 2024 has been one of the strongest since 1928, with the MSCI world index up nearly forty-percent in price terms alone since October 2023. This remarkable performance has been driven not only by profit growth but also by significant valuation expansion, with around half of the global equity return in 2024 attributed to rising P/E ratios.

Outside of the US, whilst absolute valuations are lower, valuations have increased throughout 2024. Even the weaker economies facing greater structural headwinds (like Europe and China) have seen their stockmarkets enjoying a sharp re-rating since the Q4-2023 trough, leaving them broadly in line with long-run averages – they are no longer cheap.

delian
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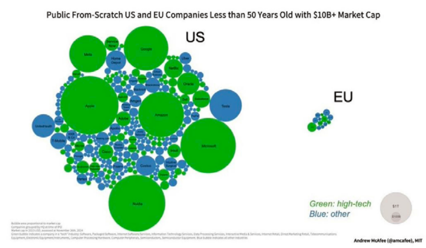
Crazy how the EU is just a rounding error when it comes to large companies that were founded in the last 50 years

It's a museum as a continent and a museum as a stock market...



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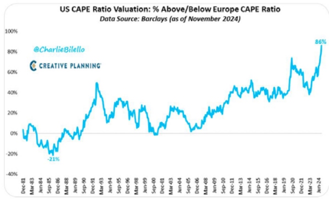
For the US equity market, the 12-month forward P/E is well above its previous twenty-year high and mean; this is partly explained by the higher valuation of mega-cap technology companies, the US equity market is still trading at close to record valuations even if we exclude these companies. Furthermore, the stretched valuation in the US equity market is reflected across most standard valuation metrics, with the median '*absolute valuation metric*' in the 97th percentile compared with history; this rise in valuation has, to some extent, been driven and justified by interest rate cuts.

There are two risks in particular that US focused investors face as we approach 2025: the first is that the recent wave of optimism has front-loaded returns, leaving them vulnerable to a correction. There are still many unknowns around *Trumponics* tariff risks and inflation. While it is sober to expect a modest decline in bond yields in 2025, any further rise in bond yields – driven by fiscal pressures – would likely tip the balance for equities given the relatively low ERP.

Charlie Bilello @charliebilello · 11h

The CAPE Ratio for US stocks is now 86% higher than European stocks, the widest valuation gap in history.



Cite:- More Money Will Be Made In Financial Markets In The Next Two Years Than The Past Twenty Combined: Reflation, Cost Of Capital & Pricing Systematic Risks, 23 November 2020

The second relates to the unusual degree of market concentration, with the US equity market constituting seventy-percent of the MSCI AC World Index and the biggest ten US stocks account for over twenty-percent of the entire value of the global index. The good news is that the biggest US companies have outperformed the index for good reason – they have generated much stronger profit growth. This means that their prominence has reflected their premium fundamentals and has not been driven by excessive valuation, a *Keynesian* economic principle underscoring the drivers of this bull run.

It's worth noting that the success of MMT-inspired policies in supporting equity markets depends on maintaining investor confidence. The theory challenges traditional economic thinking and any signs of its failure could lead to a rapid reassessment of market valuations. The experience of Liz Truss's short-lived premiership in the UK serves as a cautionary tale, where aggressive MMT beliefs led to a swift market backlash. Critics argue that unfettered money printing on this scale could lead to runaway *hyperinflation*, as seen in historical examples like Weimar Germany or more recently in Venezuela. The potential for inflation shocks could cause stock and bond prices to plummet, which some MMT proponents might view as a necessary step to "*level the playing field*".

Despite these risks, Wall Street's most bullish S&P500 outlook for 2025 projects a nearly seventeen percent increase from current levels.

The story of America's stockmarket heading into 2025 mirrors that of its national bird: an opportunity hiding in plain sight until recognised by those with a keen eye for detail. By understanding and navigating the interconnected forces—monetary policy shifts, capital dynamics and demand-driven growth—those who act decisively may find themselves soaring alongside this remarkable bull market.

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