Stock market infected with vaccine

While the virus continues to be relentless, the stock exchanges are indulging in a record-breaking month of November, foraged by announcements of progress by Pfizer-BioNTech, Moderna and AstraZeneca. The vaccine could already be on the market in the coming weeks. But it will probably take months before it reaches widespread distribution. Optimism has also found a source of self-feeding in Joe Biden's victory in the US presidential election. The Dow Jones reached 30,000 points. It has therefore broken that psychological and technical threshold that a controversial book published at the turn of the millennium, in the midst of the dot.com bubble, had hastily anticipated by twenty years. The party was generalized: the MSCI World Index grew in the month by more than 11 percent and the Stoxx Europe 600 by 13.5 percent. The fear of being excluded from the mighty rally has channeled, in the month, according to Bank of America, almost ninety billion USD in equity funds. A record! To suffer were the shelter assets, as the gold fell by 5.3% to 1787 dollars per ounce.

The news about the new vaccines have forced the strategists of the big banks to review their models. The recession of 2020 will be followed by a powerful recovery well earlier than expected just a few weeks ago. The resulting optimism has resulted in the expected portfolio turnover. The stocks that have remained at the stake in recent months, those of tourism, cruise ships, hotels, shopping centers, treated at discount prices, have been rediscovered. Even the oil stocks, which were experiencing a strong slowdown in world demand, have returned to the present day. Dreaming of significant growth, small and medium capitalization companies, more sensitive to the economic cycle, have also sprung up. The Russel 2000, the index of small American companies, gained more than 18 percent in November. In general, there has often been talk of *value stocks*, the intrinsic value of which is not reflected in the prices, which have taken over. While *growth* *stocks*, digitization stocks, such as Microsoft, Apple, Google (Alphabet), Facebook, slowed the race. And even pharmaceuticals and food, which guarantee profits even in the lowest moments of the economic cycle, have been put aside a bit. On balance, the indices have been dragged by the values penalized by the pandemic. The distinction between *value* and *growth* in the context of the emerging green and digitalized economy no longer makes much sense. Utilities, easy producers of dividends with profits driven by state regulations, if undervalued in relation to their intrinsic value, were once purchased without fear. Today they are not. Investors treat them almost like growth stocks: they are only interested in those utilities that are ahead in the energy transition, that have invested in wind, solar, etc.. And in fact, in November, to drag the stock exchanges were the companies that are part of the development plans of the green economy. They were supported by the programs of the new president of the United States, the European Union, but also China.

To understand if this positive movement of financial assets will continue, it will be necessary to monitor the evolution of the coronavirus and the success of the vaccine. But that's not all. If the stock markets are growing it is because they have fuel. Central banks continue to inject liquidity into the markets. For this reason, today it is difficult to read the future through the bond market, which is normally more reflective. If the trend in interest rates has remained cautious despite expectations of growth, it is perhaps a symptom of scepticism. But this market has in fact been nationalized by issuers who buy bonds on the markets to keep rates down.

Investors have also been comforted by the policies of central banks that seem to be increasingly inspired by the *Modern Monetary Theory* which, among its postulates, to improve employment and demand, places inflation as the only limit. As long as inflation, structurally, does not raise its head, central bank policies can be expansive. But that's not all. The states are also called upon to expand their fiscal policies by keeping an eye only on price trends. If the economy recovers earlier than expected, with liquidity already on the market, the dangers of monetary tightening could be a danger for the stock exchanges. However, the markets do not seem to be worried at the moment. The major central banks have already announced that they are prepared to tolerate even significant deviations from the sacred 2% target. Between the two sides of the Atlantic, the goal is to revive the economies by encouraging major investments in infrastructure. In the United States the topic is bipartisan. Even if the Republicans are more careful not to increase the country's debt too much. While the Democrats do not see this as a problem. The dollar is weakening because it is affected by Biden's desire to move in this direction.

In the United States the real power to intervene in the economic cycle is not only of the central bank. Since it is an accomplished federal state, the power lies primarily in the hands of the Treasury. It is therefore no coincidence that Janet Yellen, former chairman of the Federal Reserve, is most likely to be appointed as finance minister of the Biden administration. In this way, the new chairman intends to make it clear that he wants to conduct fiscal policies which, together with monetary policies, must produce growth and employment.

In the European Union, a hybrid and, above all, unfinished political project, the only real power already truly federal is the European Central Bank (ECB). It is therefore no coincidence that the movement is contrary to that of the United States. Christine Lagarde, former French finance minister, former president of the International Monetary Fund, therefore a policy, has been put at the head of an institution that should be essentially technical. The role of the ECB therefore seems to be that of a federator, a driving force in the process of European integration, just as in the 1950s it was coal and steel that took on this task under the direction of Jean Monnet. The Recovery Fund, challenged by Poland and Hungary, is in fact the instrument of a shared union, which provides debt through a common institution and the controlled redistribution of the money collected. The European Union, at this stage, can define its destiny through its finance, piloted towards the major projects of the green economy. Inevitably, to succeed in this goal, it is necessary to have a transnational financial system. The signals that are multiplying in the field of bank mergers and acquisitions are to be monitored carefully because they will define if there will really be propulsive force in Europe. If banks have grown powerfully in Europe in November (+33%) it is not only because they appear as forgotten value securities, but because the market believes in the strength of central banks and in Europe the ECB wants solid banks to support its policies. In such a context overbought situation can lead to natural corrections. But not to changes of scenery, for now.

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