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It's Friday afternoon, it's dark outside and school is over for the week. Let me tell you some truths about markets in 2021



The consensus view this year is all pervasive. Everything I see and read is based upon it. Parts of it may eventually come true, but it's not going to be sunshine and rainbows

To summarise, the mechanical recovery taking place will become self-sustaining as vaccines and "pent-up demand" combine to lead to an orgy of consumerism

Of course this is a very American fantasy because elsewhere, no one expects anything of the sort to happen, not least Europe or Japan, where we'll continue to be frugal

To add to this we have the Fed "backstopping" the market and a new Democratic administration stuffing cash into the hands of people who already have money

This will lead to a varied combination of higher Treasury yields, a weaker dollar and strong stock markets, the latter of which I presume mean we should buy EM and go to the beach

My reflex is to rebel against such consensus, which I feel is wrong from an economic, cyclical and market perspective

Firstly, I am not an economist but even I find it hard to believe that people aren't concerned about the massive fiscal contraction in 2021

Regardless of how many dollars are spent by the new administration, even getting close to last year's performance is going to be tough

Furthermore, the whole "pent-up" buzzword is IMO bollocks. You're all working from home. There's your 2020 investment. That's a lot of holidays/orgies/etc

As for higher inflation, well, there are still a hell of a lot of people out of work, and there is normally a big lag between slack and inflation, so let's see

Onto the cycle. Well, March 2020 ended the last one, and most people seem to think we've embarked on the next

That's not right. We've just had the longest expansion in a century. There will be a massive hangover. Just wait. It'll happen

Secondly, in economic recoveries, everything seems like a massive hazard. We're glad to get through the day/week/month unscathed. Now it's all sunlit uplands

2003 and 2009 weren't times of unconfined joy. Everything was shit. It just happens that they coincide with the bottom of the stock market charts

This is either the easiest recovery ever, or it isn't a recovery at all

And this leads on to markets. According to consensus the new cycle has begun with asset prices at boom era highs. No

Stock valuations are very high. Just because xyz stock is not as rich as tesla doesn't mean that xyz is cheap. The floor has moved and all shit floats to the surface

Also, as much as the Fed aren't buying stocks, they also aren't guaranteeing a floor to the stock market. As we discovered, and have now forgotten, March 2020 happened with Fed trying to stop it

As for the dollar, the argument that the Fed's printing means it must depreciate is just plain wrong. ECB and BoJ are printing too

Surely the dollar view most in line with consensus is that US outperformance means dollar outperformance along with the fantasy of Fed tightening

Anyhow I've talked enough. I am not short. Like with crypto, when valuation becomes unimportant, price can be anything. The best thing to do right now is to reduce risk

Anyone who tells you to be long either has no idea what they are talking about or should know better

When this market finally goes down, from whatever level, March 2020 will be a picnic in comparison