The Economist

Markets are suffering from a nasty bout of millenarianism

Contrary to popular wisdom, there are reasons to be cheerful

A SKIT in the 1979 film, "The Secret Policeman's Ball", features Peter Cook, a revered British comedian, as the leader of a cult whose members have gathered on a mountain to watch the end of the world. His followers are full of questions. How will the Earth perish? Will there be a mighty wind? What will happen to homes? "Well, naturally they will be swept away and consuméd by the fire that dances on the Jeroboam," he replies. "Serve them bloody well right!"

The skit sends up the millenarian sects of medieval Europe whose adherents believed they were living in the "end times" or "last days". It could as fittingly be aimed at many investors today. A strain of millenarian thinking has been common since the bankruptcy of Lehman Brothers ten years ago this month. Its devotees, too, rail against a discredited priesthood and its vices—in this case, central bankers and quantitative easing (QE). They also maintain that a reckoning is due.

Perhaps it is. As the crisis that followed the collapse of Lehman brought home, it is a mistake to be complacent about what may happen next. Extreme economic and financial events are far more likely than investors had believed. But the real lesson of Lehman is not so much that very bad things can occur. It is that anything might. Investors should of course be mindful of the risk of further crises. But they should also keep in mind the possibility that things might turn out just fine.

Admittedly, this is hard. It is far easier to think of ways that things might soon go wrong. America's stockmarket is pricey. Its economy has enjoyed a long expansion. Perhaps the Federal Reserve will tip it into recession. The trouble in emerging markets may worsen. The euro zone is accident-prone. It still lacks a shared mechanism for propping up the economy by fiscal means. Meanwhile, China's economy has slowed. Its debt mountain looms large. President Donald Trump's numerous trade wars present another threat.

Moreover, the origins of a crisis can often be found in the response to the previous one. The Fed's interest-rate cuts following the East Asian and Russian crises helped blow up the dotcom bubble. When that burst, the Fed slashed interest rates and fuelled a housing boom and bust that did for Lehman Brothers. There is good reason to worry that the end of QE in Europe, and its reversal in America, will unsettle financial markets.

Deliver us from salvation

The possibility that markets might be surprised by good news may seem absurd. It is natural to respond to trauma with caution. But this caution can be so extreme that it impairs people's judgment. In "The Pursuit of The Millennium", first published in 1957, Norman Cohn showed that outbreaks of millenarianism often followed a big disruption of some kind—a plague, a famine or even a sharp increase in prices. Prophets of doom tend to spring up after disasters. When you have just lived through one trauma, another seems more plausible.

But disaster can breed so much caution that a crisis becomes less likely, says Eric Lonergan of M&G, a fund-management group. He cites the example of the East Asian crisis in 1997-98. The countries it affected went on to make sure they would not be at risk of another balance-of-payments crisis. Likewise, after a crisis as far-reaching as the most recent one, levels of watchfulness among rich-world policymakers militate against the risks of a global recession. "Your prior [assumption] should be for a very long expansion," says Mr Lonergan.

So how might it all go right? It is encouraging that a number of Fed governors seem anxious about the risk of tightening monetary policy too much. Emerging markets may be out of favour, but only a handful are plagued by the old evils of inflation and over-reliance on foreign financing. The chance of progress on fiscal risk-sharing in the euro zone is higher than is generally appreciated. Daniele Antonucci of Morgan Stanley notes the promising noises coming out of Germany. The threat of a trade war has reduced the likelihood of global recession, reckons Mr Lonergan. It has spurred the Chinese authorities to stimulate the economy sooner than they would have otherwise.

Optimists can seem naive. Looking on the bright side does not have the same intellectual cachet as forecasting calamity. Prophets of doom know they will eventually be proved right. It is the nature of business cycles that recessions happen. Good news is just bad news postponed. When the doomsayer played by Peter Cook is forced to recognise that the Earth has not been consumed by flames, he is phlegmatic. "Never mind, lads," he tells his followers. "Same time tomorrow?"

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