WHAT IF? **Annette Sampson**

Pandemic-related stimulus has created a financial bubble

The trillions of dollars pumped into global economies has staved off depression, but there may be a day of reckoning

CRISIS, WHAT CRISIS?
The markets seemed to think there was no such thing as bad news during the past 12 months. The US S&P500 index finished 2020 at record levels despite raging Covid-19 and political ructions. The key index fell by around 34% before it bottomed in March, but by the end of the year it had rebounded an incredible 70%. By mid-January it was still up 11% on pre-Covid levels.

In Australia, the bounce has been more muted. In mid-January the S&P/ASX 200 index was still 6% below its pre-Covid levels, though it had recovered by around 48% from its March lows.

To some extent, this makes sense. When the pandemic first hit, there were huge concerns about the financial fallout, with talk of a possible depression. In the September quarter, Australia's gross domestic product dropped 7%, though it bounced back by 3.3% in the December quarter and looks on track for another strong gain this quarter.

The US economy dropped by 9% in the second quarter of 2020, before growing by 7.4% from July to September.

The economic rebound is a good news story. But in neither case has there been a full recovery.

WE'RE AWASH WITH CASH
So why have markets, particularly in the US, got so far ahead of any real economic rebound? In part, they look forwards and anticipate future economic activity as vaccines are rolled out and (hopefully) restore normality to the wider economy.

The election of a Biden government in the US, and confirmation that it will have the votes in the senate to pursue its agenda, has also raised hopes of greater stability.

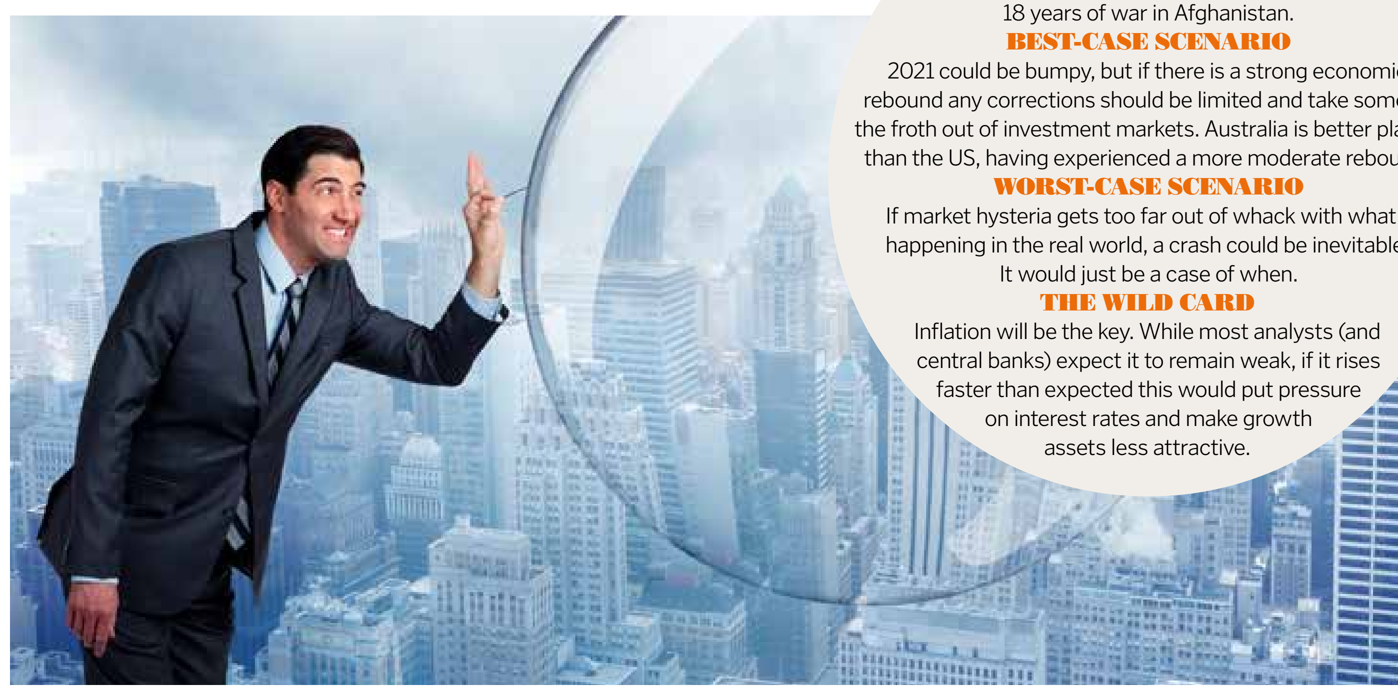
But the more significant factor has been the unprecedented stimulus measures enacted by governments and central banks. In a bid to avoid a repeat of the 1930s depression, when governments acted too late, the general approach this time has been to do whatever is necessary to keep economies moving.

In the US, the Biden administration announced a further $US1.9 trillion ($2.5 trillion) in stimulus measures in January, on top of around $4 trillion in 2020.

In Australia, spending measures have almost hit $200 billion.

Central banks have also come to the party with record low interest rates and quantitative easing, buying government bonds to pump more money into the economy. The European Central Bank was buying bonds worth around €20 billion ($32 billion) a month at the end of 2020 and in the US the Federal Reserve was creating $US60 billion a month through quantitative easing.

Our own Reserve Bank announced a $100 billion quantitative easing program in November. It also intends to keep interest rates at current levels for at least three years until inflation is back to its target range of 2%-3%.



DID YOU KNOW?
The $US4 trillion pumped into the US economy in 2020 exceeded the cost of 18 years of war in Afghanistan.

BEST-CASE SCENARIO
2021 could be bumpy, but if there is a strong economic rebound any corrections should be limited and take some of the froth out of investment markets. Australia is better placed than the US, having experienced a more moderate rebound.

WORST-CASE SCENARIO
If market hysteria gets too far out of whack with what's happening in the real world, a crash could be inevitable. It would just be a case of when.

THE WILD CARD
Inflation will be the key. While most analysts (and central banks) expect it to remain weak, if it rises faster than expected this would put pressure on interest rates and make growth assets less attractive.

DESPERATE FOR A RETURN
This spending binge is targeted at economic recovery. But it has also fuelled speculation in assets such as shares and property. With bond prices at record lows, investors have been chasing returns in growth assets.

British investment guru Jeremy Grantham, founder of the investment firm GMO, told clients in January that the long bull market from 2009 had "finally matured into a fully fledged epic bubble". He believes it will rank with the great bubbles of financial history such as the "South Sea bubble", 1929 and 2000.

And while the bulls assume the Federal Reserve will stand behind the market to avoid a damaging crash, Grantham says this one will burst, like all bubbles.

"The mantra for 2020 was that engineered low interest rates can prevent a decline in asset prices. Forever!" he wrote. But he noted low rates and super-loose money didn't prevent stocks from cratering in 2000.

Of course, it is not all markets that are on fire. The super-speculation has mostly focused on the US market and tech stocks in particular. But these are not necessarily the assets that will benefit most from an economic rebound.

While interest rates remain low and liquidity high, it is hard to see a catalyst that could cause a mass exodus from sharemarkets. But investors need to be aware of the risks and keep a firm grasp on reality.

Annette Sampson has written extensively on personal finance. She was personal finance editor with The Sydney Morning Herald, *a former editor of the* Herald's *Money section and a columnist for* The Age. *She has written several books.*

THE CHALLENGE **Sally Sinclair**

Protect women's jobs

Extra skills will be needed to survive in high-risk fields

When it comes to women in the workforce, the biggest challenge remains one of equality. It is a long and ongoing battle highlighted recently by the fact that women were the most adversely affected by the pandemic. Female-heavy sectors like accommodation and food services, retail, healthcare and social assistance were in the top five most-hit sectors, followed by education and training.

The way to help women to Covid-proof their work begins with looking at how we better support people in casual and part-time work to develop their skills, so they are not confronted with so much risk.

A key skill that helped many people keep their jobs during lockdown was the capacity to work from home and here women are also challenged. There are stories of women doing teleconferences from wardrobes because it was the only quiet space in the house. Having the technology, the space and the skills to pivot is a key way to lock-down-proof any work.

This year is really is going to be a game changer in the job market: the key themes will be "unpredictability" and "adaptability". For women, protecting their fragile work in these high-risk areas means being open to moving into more secure fields. Or starting at an entry level in your chosen field and doing some "laddering", a practice whereby you build yourself up in the career while working in it. There are options other than just full-time education and training for some of these higher roles; you can do part time, online study while working and move, for example, from basic support work to being a nurse in three or four years and get paid while doing it.

Understand where the trends are in the labour market and look for the growth sectors. For example, healthcare and social assistance is the fastest growing sector because of the growth in demand for aged and disability care. The sector needs to double in size over the next 10 years.

Women need to get better at promoting their skills, in particular transferable skills such as raising a family and running a house, to an employer in a convincing way; they tend to dismiss those skills as they are not obtained in the workplace. The foundations for employment for all people are skills like problem-solving and working with other people. Parents can generally demonstrate these skills in spades, but people need to think about them and not be shy promoting them.

It will be a year that is all about jobs, but there will be more people looking for jobs than in decades past and the skills you need in a post-Covid landscape are changing. All workers need to change with it.

Sally Sinclair is an employment specialist and CEO of the National Employment Services Association.