

For once, I agree with the hedge funds

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As the [FT has noted](#) this morning:

Hedge funds are getting ready for another slump in stock markets after growing uneasy that surging prices do not reflect the economic problems ahead.

Some managers fear that equity investors, used to buying the dips during the decade-long bull market that ended in March's sharp sell-off, have become too complacent about how quickly economies can recover from the coronavirus crisis and how effective stimulus packages from central banks and governments can be.

They added:

Despite a slew of bleak economic data - including more than 40m Americans filing for unemployment benefits and an expected record contraction in the eurozone economy in the second quarter - the S&P 500 has surged almost 40%. For once I am in agreement with the hedge fund managers. The markets are separated from reality on this issue.

The fact is that, even if there is massive QE forcing interest rates to record lows (which QE has the inverse and deliberate effect of making equities seem more attractive) this still makes no sense at all.

The reason for the QE is that we are in crisis.

The economic data shows an economy in crisis in the US and the UK, where I still imagine unemployment heading to 25% or more as furlough comes to an end and businesses face the shocking reality that they really do not have the ability to sustain themselves. The suggestion made recently that maybe 300,000 of the businesses that have received 'bounce back' loans will not repay them seems plausible to me.

Both these likelihood's have very real impact on quoted companies: demand for their products and services will decline, and potentially very heavily. That is what economic reality suggests.

And in that case to value shares in these companies as if almost nothing had happened since February, which is what much of the market is doing, is absurd.

Some people are, very soon, going to be taking some short term profits on this position. But the market as a whole cannot buck the real economic trends that are happening in the world. That is ultimately not possible. In which case stock market savers (because that is what those who hold money in the market do: they save and do not invest) are going to be in for a very bumpy ride. And the hedge funds are the ones likely to profit from that, but no one else will.