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Animal Spirits

Published on: 24 January, 2025 | Author: Investment Team

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The term “animal spirits,” coined by economist John Maynard Keynes, encapsulates the instinctive, emotional drives that influence human behaviour, particularly in the realm of economics. Rather than relying solely on rational calculations, individuals often make decisions based on feelings, confidence, and overall mood. These intangible factors can significantly sway economic activity, investment decisions, and consumer behaviour.

At its core, animal spirits refer to the psychological and emotional factors that propel individuals to act in the marketplace. When people are optimistic about the future—perhaps buoyed by positive economic indicators or successful businesses—they are more likely to invest, spend, and take risks. Conversely, during periods of uncertainty or pessimism, individuals tend to retreat, hoarding their resources and making conservative financial choices. This shift in mood can create a ripple effect, influencing everything from stock market trends to employment rates.

The influence of animal spirits on economic prospects is particularly evident during times of crisis or recovery. For instance, the 2008 financial crisis sent shockwaves through global markets, leading to a profound decline in consumer confidence. As fear took hold, spending plummeted, businesses cut back on investments, and a vicious cycle of economic contraction began. It wasn’t merely the hard data (rising unemployment, falling GDP) that dictated this downturn; it was also the pervasive anxiety that permeated the collective psyche. Quantitative Easing was actually an attempt to increase spending by lowering returns on cash to zero and altering consumer and business behaviour.

On the flip side, consider the post-pandemic economic rebound. As vaccines rolled out and lockdowns eased, a surge in consumer confidence was palpable. Shoppers flocked back to stores, restaurants reopened, and businesses ramped up hiring. This resurgence can be attributed, in large part, to an uplift in animal spirits. People were eager to return to normality, to spend money, and to invest in their futures, showcasing how positive emotions can catalyse economic growth.

The interplay between animal spirits and economic prospects highlights the importance of sentiment in shaping fiscal policies and market strategies. Policymakers often grapple with the challenge of fostering an environment that nurtures positive animal spirits. Interest rates, for example, can be adjusted to stimulate or cool down economic activity. During times of recession, lowering rates can encourage borrowing and investment, while higher rates may be employed to temper an overheated economy.

The Trump rhetoric is actually akin to the Boris Johnson ‘boosterism’ pre-pandemic. In our view, at times such as these it is not necessary to analyse the minutia of such plans but to understand the concept of Animal Spirits is a very powerful one which can offset other negative economic factors which we cannot necessarily quantify. Maybe, just maybe, President Trump and his team can generate a more positive environment for other countries and higher economic growth which we all need globally. We just cannot quite see through this due to the bravado at present.

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