Key Highlights:

- Jeremy Grantham believes another big stock-market bubble is forming
- Some of the major sock indexes are up by around 40% since late March, while the U.S. economy is at a low point
- S&P and Bitcoin correlation has reached an all-time high in March
- What will happen to the prices of crypto if this is indeed a bubble that is about to pop?

Jeremy Grantham, co-founder and chief investment strategist at Boston-based money manager Grantham, Mayo, Van Otterloo & Co. has recently appeared in an interview for CNBC, during which he warned investors about a major bubble that is developing on the stock market. Grantham has correctly called out three market bubbles in the past, but says this one is “the real McCoy, this is crazy stuff”.

Fourth Bubble in Grantham’s Career
A Duke University finance professor Campbell Harvey, commented on the correlation saying that there is too little data to say anything for sure, but that it seems that even cryptocurrencies are not a completely isolated financial island:

"It is really challenging to say much about correlations with the S&P 500 given there is so little data. We have the S&P from 1871 and we have high quality BTC data for less than a decade. Indeed, we have never had a recession in the history of BTC – until now... Yes, I know there are good economic reasons that BTC should be uncorrelated with the economy, given there is no tangible fundamentals associated with the technology. However, there is no evidence that cryptocurrencies are safe-haven assets."

To conclude, in case the correlation between the two markets stays at high levels and the stock market bubble pops, we could potentially see the prices of crypto react in the same way, at least for the short term.

Tags: Bitcoin  Stock Market
“My confidence is rising quite rapidly that this is, in fact, becoming the fourth, real McCoy, bubble of my investment career. The great bubbles can go on a long time and inflict a lot of pain but at least I think we know now that we’re in one. And the chutzpah involved in having a bubble at a time of massive economic and financial uncertainty is substantial,” Grantham told the CNBC.

**Dow Jones, S&P 500 and Nasdaq all up by around 40% since late March**

The global stock markets crumbled under the weight of uncertainty brought by the COVID-19 pandemic and the coronavirus-related lockdowns and reached a low point on March 23rd. However, since then, markets have been bustling higher and higher. In fact the Dow Jones Industrial Average (DJIA), the S&P 500 and the Nasdaq Composite Index are up by 40.5%, 39% and 44% respectively since late March this year. Furthermore, the later, Nasdaq, even established a new all-time high last week.

What surprises Grantham the most is that this is all happening amidst the global pandemic – an unprecedented period of nation-wide lockdowns with many people losing their jobs and a lot of companies going bankrupt (and even those that managed to survive are facing a slowdown in business activity). Because of this Grantham believes the stock market indexes do not reflect the U.S. economic health, which is at a low point, but are rather a result of speculative trading. The investment expert proceeded to say that at least a part of the blame can be accounted to the monetary stimulus checks from the Federal Reserve, whose balance sheet has jumped from $4 trillion in March to $7.21 trillion last week:

> "Clearly, the Fed scattering money around has created a favourable environment."

**Bitcoin and Stock Market Correlation**

But what does this have to do with cryptocurrency markets you may ask? Well, before 2020, there was hardly any correlation between Bitcoin **BTC, 2.26%** and the stock market. However, since and (including) the March 12th selloff, Bitcoin’s price has been showing a positive and relatively strong correlation with stock market indices, especially the S&P500. In fact, according to crypto analytics firm Santiment, the correlation of the two markets reached an all-time high in late March, with both markets behaving almost exactly the same:
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Gainers vs. Losers
84% 16%

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