Weekly Market Insights

February 4, 2019

A Positive Week for Equities!

Equity investors enjoyed a very good week. All the major indexes were well into positive territory. The Dow Industrials closed up 1.32% for the week, while the S&P 500 closed up 1.57% and the NASDAQ up 1.38%.

The investors had good reason to be positive: earnings reports are either good or not as bad as expected, employment and wage growth remain very encouraging and the Federal Reserve calmed the fears of investors who were concerned that the Fed would overplay their hand. As we wrote last week, the combination of stock prices, employment, wage growth and new entries into the labor market encompass both leading and lagging indicators.

As we all know, the Fed's view on where interest rates should be has been an overriding concern of investors and analysts alike. Chairman Powell has put those concerns to rest. We have felt all along that it was important to listen to what the Fed is telling us and believe them. This has not been like the old days of Fed watching. There was no need to interpret arcane signals. The Fed told us exactly what they were doing. They would analyze the economic data as it was released and would treat rates accordingly.

It will be interesting to see what the Fed does with their large portfolio of long dated securities. It is apparent they want to reduce it in a timely fashion. There are a number of reasons for this. Most important, from our view is, although they did QE under emergency conditions, it is not in their brief. The reason is it smacks of fiscal, rather than monetary, policy. The Fed should not be in the business of allocating credit; that is the job of the market. It would be wise for the Fed to continue to reduce the size of their portfolio. We do not think, if done in a timely fashion, it would lead to an economic slowdown.

For the moment, the U.S.-China trade conflict appears to be on hold. We have written in the past that we believe that a settlement will be reached. Just as the battle over the "WALL" may be settled simply with semantics, ensuring that no one seems to have capitulated, so changing a few definitions may do the trick. Just a word about the scuffle over Huawei. This is not a simple trade problem. We and many others have written that intellectual property theft is the real battle. If there really is solid evidence, this case should not be sacrificed in order to reach a settlement. There is enough pain in a trade war to convince both sides to settle.

Of course, it is not a clear path to continued economic strength and a strong equity market. In no particular order: Brexit, EU economic slowdown, where is China's economy headed and, of course, the expansion and associated bull market, may be in an extended position. There are a few very important areas that we will cover in some depth in the next few weeks. China, not necessarily as it pertains to a trade war, has entered a permanent economic slowdown because all the low hanging economic fruit has been picked. What about the Chinese debt and their relation to emerging market countries and burgeoning relationship with Russia, an economically weak country?

Weekly Market Insights (cont'd)

A lot has been written about the past 100 years, 1919-2019! It was the end of the Great War - unfortunately called the war to end all wars. The birth of our firm, then named Scudder Stevens and Clark, was 100 years ago, when Max Weber gave his famous and influential lecture, Politics as a Profession, "*Politik als Beruf*" to a group of liberal students. Max Weber is the intellectual founder of Sociology and is a true realist. We have the magazine The Economist to thank for alerting us to it. If any reader has the opportunity to get a copy of the January 26th-February 1st 2019 copy, they should. It is excellent and sheds light one hundred years later. Thanks to The Economist, I have had the opportunity to reread and rethink his views. It strengthens my view that it is a shame the economics profession dropped Political from its academic name. It used to be called "Political Economy." If you read this article, you will know why it should have remained that.

This is a very worthwhile, though deflating, piece.

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