

Weekly Market Insights

August 24, 2020

Equities set a record and the campaigns start in earnest

Markets

United States equity markets closed another positive week.

The S&P rose 0.72%, the NASDAQ 2.65%, and the Dow 30 finished flat at 0.0%. This past week, in the midst of the pandemic, the S&P 500 regained all lost territory and then some. Quite an achievement in the face of a global pandemic and the official start of a presidential campaign that promises to be divisive at best.

Having achieved this much, investors must be wondering how much further? No one, of course, knows the answer, but there are several ways to look at it. Both the U.S. economy and the financial markets were doing well before the pandemic. So, if investors think of the pandemic as an exogenous shock to the system and believe when it ends the economic world will revert and go back to its pre-pandemic ways, a case can be made that markets should, after a drop caused by fear, slowly make their way back to pre-pandemic valuations. As we wrote, that argument can be made, but to us it appears somewhat herculean. The big assumption is that we will achieve a full economic recovery sooner rather than later. If that is the case, the market would appear to be just about right or a bit over valued.

There is a lot going on besides the pandemic. For one, the Republican and Democratic National Conventions marked the official opening of the presidential election. At least two contrasting events occur during presidential elections. 1) Candidates

will often move towards the middle, trying to entice the undecided, and 2) they will paradoxically try some extremes in order to excite the faithful. This campaign promises to be one where extreme proposals are frequent. This is not normally a positive for markets. So it will be important to see which path the candidates choose to follow.

The Federal Reserve

The Federal Reserve appears to be satisfied with the amount of liquidity they have injected into the system. To be sure, they are not satisfied with the current state of the global economy, but we do not expect any new programs for the time being.

There is a far more important event facing the Fed. As we reported in the past, President Trump nominated Judy Shelton as a Governor of the Federal Reserve Bank. We explained why we and the economic community are very much against her nomination. Readers can read our past reports by going to our website using the following link <https://1919ic.com/resources/library/>. She was narrowly approved by the Senate Banking Committee. Now, she must face the full Senate. Recently, 38 former Federal Reserve officials wrote a joint letter to the Senate urging them to reject Ms. Shelton's nomination. I really don't remember anything quite like this. If she is elected, it should and will cause alarm for investors.

Investors

Investors reacted with a great deal of restraint in response to the Democratic National Convention. In fact, the Convention appeared to be constructed to

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achieve that result. Nothing shocking. Everyone knew who the Vice Presidential nominee would be. Ms. Harris' views are well known and unsurprising to most Americans. The firebrands were limited in the time they were given, and the old war horses were very prominent. Vice President Biden,

although strident in his critique of President Trump, did not shock anyone with his speech.

The campaign has just started; but, so far, it has not hampered the enthusiasm of investors.

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