

Weekly Market Insights

August 12, 2019

It's a leaderless world

Financial markets continued to search for direction this past week, with the S&P -0.75%, the Dow Industrials -0.46% and the NASDAQ -0.56%. The ending results do not adequately describe market behavior through the week. Markets appear to be having kneejerk reactions to each piece of economic news. We wrote a piece late last week, August 8th to be exact, and things have not changed very much since then, so this will be short and sweet.

Monetary stimulus

There continues to be concern among a number of investors that the Fed has not acted aggressively enough to reverse what some perceive to be an economic slowdown leading to recession. We think a more likely outcome is the economy moving toward a more sustainable level, somewhere between 2.0% and 2.75% GDP growth and 2.0% inflation, which happens to be the Fed's target zone. Investors must remember that monetary policy actions take at least three months, and more likely six months, to begin to take effect. Therefore, if the economy or inflation does not start to accelerate in the immediate future, investors should not assume the policy moves are not effective.

But, it is important for investors to remember that the Fed has explicitly told us that if the economy continues to show signs of weakness, they will respond with more rounds of easing. This move toward easing is a bit earlier in the cycle than in the past, which reinforces our earlier stated view that a recession in the next 12 months is unlikely. A slowdown yes, a recession no.

A really interesting read on Fed economic thinking is in Sunday's New York Times business section, page 5. It discusses the Phillips Curve. If the name means nothing to you, fear not; the author does a great job explaining it.

Market behavior

Investors should be prepared for increased volatility. Until the economy stops slowing, investors will be inclined to sell at each sign of weakness. This will be complicated by trading funds, which move in and out of markets in anticipation of short term moves. A bumpy ride is likely.

Just a thought

There seems to be a lack of positive leadership around the world and that may be the biggest danger. The liberal global trading regime is being challenged on all fronts, even as this regime has brought the greatest prosperity ever known. Things can always get better but what is needed is a bit of tweaking, not abandoning it. Perhaps what is needed is for someone to be that cheerleader. No country is in a better position to fill that role than the United States. Even in the U.S. where things are going well, the rhetoric on both sides is pretty depressing. Leaders are meant to inspire. We will see during the coming year if any of the candidates decides to take up the mantle.



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