

Weekly Market Insights

November 16, 2020

Equities continue to advance, a sector reversal perhaps.

Equity Markets

U.S. equity markets continued to advance for the second straight week. The Dow gained 4.08%, the S&P 500 gained 2.16% and the NASDAQ fell 0.55%. The markets accomplished this in the face of political uncertainty and a dramatic rise in COVID-19 infections throughout the country. Offsetting these apparent headwinds is a strengthening economy and seemingly significant advances in the search for a vaccine.

Another important move that may be occurring is investors shifting their focus from growth to cyclical stocks. As the weekend *Wall Street Journal* points out, investors "...pulled away from highflying technology stocks that had powered the market higher... and shifted into economically sensitive stocks seen as likely to benefit from a post-pandemic recovery." Is this a fundamental shift in the economy and investor preferences? Maybe growth stocks just got a bit ahead of themselves or there was an over-enthusiastic view of the excellent results announced by Pfizer and Moderna? Alas, no one knows, but we can feel secure in the knowledge that the economy continues to advance.

The Economy

The U.S. economy continues to strengthen. Its resilience is actually remarkable. As we write, statistics that reflect consumer employment, income, spending and confidence are quite strong. They represent between 65 and 70% of the U.S. economy, and if such a large percentage of the economy is moving ahead, it is difficult to see a problem in the near future. The economy, of course, is not on a clear path to a full recovery, and there are certainly serious obstacles that can derail it from its current path forward.

The two major hurdles are known to all—the continued advance of the pandemic and what the political future holds. Conflicting views about questions like these are what make markets effective and interesting. Neither can be answered with complete confidence, but must be important parts of any investment decision, whether an investment in the financial markets or an investment by a business manager.

Conclusion

Coming to a solid, fact-filled conclusion is difficult at the moment. Investors are not dealing with factors that are easily translated into an economic equation. Instead, they must look at two important and independent items. Given what we see in the economy, is the market going to continue to advance, and, if it does, is a reversal into cyclical occurring? As we look at the economic indicators, it does not appear that the equity markets are in any significant immediate danger. Should investors be wildly bullish? No, but economic progress appears to be sound, and that should help the economy. The second question is really interesting. It depends on a number of alternative outcomes. The first and most important will be if any of the vaccines have their expected success and efficient distribution. If any are effective, how soon will they be available to the general public, and, of course, will a large majority actually take them? Another question is, have habits changed? Will shoppers continue their affair with online shopping and extensive use of technology? It seems unlikely that technological advances are about to slow down.

Weekly Market Insights (cont'd)

Of course, we don't know what a new president's policy will actually be, but we wrote in an earlier paper that if Mr. Biden becomes president, he would champion alternative energy and infrastructure. This should sound familiar, as others have said the same, but we are taking him at his word.

On a cautionary note, it appears as if Judy Shelton will win a seat on the Federal Reserve. We, along with many others, have expressed deep concern about her views on monetary policy. She is an advocate of Modern Monetary Theory (MMT). Although she will be a minority on the board and MMT will have no supporters among the Fed governors and more Fed presidents, it is disturbing.

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