

Weekly Market Insights

May 11, 2020

Confusion continues as the markets forge ahead

Equity markets continued to advance this past week. The Dow gained 2.56%, the S&P 500 was up 3.50% while the NASDAQ increased 6.00%.

Investor behavior has been very interesting, showing a remarkable degree of confidence in the face of considerable uncertainty. We have all been taught that uncertainty is the enemy of investors. What are these uncertainties and what is the mindset that discounts them?

The United States

There are a number of obvious domestic concerns investors must wrestle with. Clearly, number one is the pandemic. Investors can be excused if they are completely confused by the progress of the virus, the conflicting medical and political reports and the effects of government programs, both monetary and economic. As readers know, we are inclined to avoid discussing the medical reports concerning vaccines and treatments. But even within the government, there is no unified voice that citizens can rely on. It appears to be a political duel. As far as the legislation enacted to alleviate the dire predicted economic consequences, there has been far too much delay in implementing them.

Always remembering this being an election year, there is a lot of fault being passed around. Polls now tell us that 4 out of 5 Americans believe China is to blame for the virus. Surely, it originated in China, but blame is the wrong word. The blame game is easy; solving the problem is difficult.

Monetary Policy

We wrote about our view on the rapid growth of money supply last week. It certainly is an important part of investor confidence. But there is the nagging question, will it lead to hyperinflation and will the Fed be forced to clamp down and cause a recession. Our view hasn't

changed in a week. Certainly, that is a serious possibility but it isn't inevitable. Nevertheless, it must be a factor in investors' calculations. It would be a far more dangerous path if the Fed stopped feeding liquidity into the economy.

The European Union

Perhaps the most interesting story unfolding is what is occurring in the grand experiment, the European Union. We have written short histories about it in the past but a short review helps. It is a product of the culmination of the two great wars. Its dual goals were to control Germany, reestablish European economic strength and present, along with NATO, a united front against the Soviet Union. It was not a particularly difficult task while the three goals remained intact. That is no longer the case. At least two of the three are gone or greatly reduced. So what might have been annoyances have become cracks in the armor. The wealthy north feels as if they are being taken advantage of by the poorer south. The catalyst for this was the decision to go to one currency and leave fiscal policy to individual countries.

The U.K. is already committed to leaving the E.U. which, if successful, may open the doors for more exits. Of course, this is speculation, but this is another concern for investors.

China

Until the pandemic, trade and China were the most important factors for many investment decisions. It remains an important part of investors' view on both the economy and markets. Every time a story breaks about China and U.S. trade, it moves the market, but over the short run, it is not as pressing as the pandemic. We have written quite a bit about China's domestic problems, both political and economic. They remain very significant, but are more of a long or intermediate-term problem.

Weekly Market Insights (cont'd)

Stay in the Game

We continue to recommend that investors keep their portfolios in a neutral allocation relative to equities and fixed income. Readers might question that recommendation after reading about the problems the global economy faces. We have written frequently about the advantages the U.S. economy has versus the rest of the world, the U.S. dollar being the paramount global currency, among other advantages.

But another reason is the speed with which the equity markets responded to the pandemic. It went into bear territory very quickly. Investors showed a remarkable tendency to respond swiftly. There are many reasons for this, but there is no reason to believe that reaction will only exist on the down side.

A Positive Result

After all the heartache and loss, there can be a positive result. Having suffered through this drama, if the country can unite politically, a lot can be done to eliminate, or at least relieve, the problems we face. We will write in depth about these in the near future. They include fiscal policy programs to increase the country's efficiency, government/corporate partnerships and acceptable tax policies to relieve the government debt burden.

Looking Forward

This week we begin our annual Intellectual Capital Conference. Each year we invite highly respected leaders in their fields to give lectures to our professionals. They come from diverse disciplines and have strong views. We don't always agree but realize how important it is to know and understand all points of view.

As we have done in the past, soon after the conference, we will be sending a summary of the presentations to our clients and friends. We hope you will both enjoy and benefit from this publication.



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Please click [here](#) for the Economic Release Calendar - May 2020.

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