

Weekly Market Insights

June 1, 2020

A remarkable two months

This past week, the U.S. equity markets ended the best two-month period since 2009. Investors demonstrated remarkable confidence in the face of great concerns.

The Dow Industrials closed the week with a gain of 3.75%, the S&P 500 rose 3.01%, the NASDAQ closed up 1.77% and the Hang Seng Index closed 0.14%.

The Economy

The U.S. economy, as expected, continued to show weakness, almost entirely due to the economic slowdown caused by the pandemic. Investors appeared to be concentrating less on how severe the decline actually was than on expectations of a recovery. Investors also shrugged off domestic and foreign political events, which were far from encouraging. As we have written in the recent past, the quickest response to the economic downturn has been from the Fed, which should be expected. Fed policy is not subject to political debate, so it can respond very quickly. The Fed continues to reassure all economic participants, including foreign central banks, that they will continue to supply needed liquidity to both markets and the economy. Interested readers should be aware that the next important Fed meeting will be June 9th and 10th. We fully expect no change in policy.

The University of Michigan Consumer Sentiment survey was released and it showed a decline from 70.11% to 65.9%. This is a rather steep decline, but, given the circumstances, is to be expected.

The Wall Street Journal had a front page headline, "Shopping Sank, Savings Rose," perfectly in keeping with economic theory and a positive for consumers.

They are behaving rationally, concerned about their future during the economic downturn by slowing their spending. As thinking economic agents, consumers know that government assistance will be temporary, so they save as much of it as they can in anticipation of it coming to an end.

Another positive is it appears that another round of fiscal stimulus will be passed.

One of the most immediate and demanding problems facing the economy is the progress in combating the pandemic. We have refrained from making any predictions concerning this topic, thinking it is better left to the scientific community. This continues to be our view.

International Economies

The E.U. appears to have finally agreed to use a very large dose of monetary stimulus in an effort to advance the economy. Alas, it is likely monetary policy is not enough. The amount may be adequate, but, as we and others have written in the past, coordinated fiscal and monetary policy is needed and that will be far more difficult to attain than just monetary policy.

As far back as 1996, Tony Judt, an English historian teaching at Columbia in New York, wrote about the difficulties of a fully united European Union. As we have written in the past, the EEC was a great idea, but perhaps the European Union was a step too far too soon. The countries, or at least many of the citizens, remain highly attached to their countries and jealously guard their prerogatives. In any case, it has led to some serious problems, such as Brexit and the rise of populist leaders.

Weekly Market Insights (cont'd)

China, as we wrote last week, is in the midst of an economic slowdown, combined with a growing authoritarian government. The Hong Kong crisis is just one example.

It is interesting that the United States, the least left leaning country of all, should be out in front of all others in fighting the recession and in the best position for a recovery.

Global Politics

Politics has always been an important part of economics. In Adam Smith's time, late 18th century, it was actually called political economy. The politics unfortunately fell out of the discipline. Now politics is having an increasing influence on both domestic and international economics. Political pressures have been building for some time, and the pressure of the

pandemic and recession have increased stress on existing political fissures as is readily apparent in many countries. We see attacks on free press, a retreat from international organizations, such as the World Health Organization, the repudiation of international agreements and international trade. This all constrains economic growth and the well-being of all countries.

Another headline came out recently, "Gold predicts inflation, bonds don't." Gold is not always a barometer of inflation. It is often a refuge for those who are losing faith in their present government.

Voltaire, one of the most important philosophers of the French enlightenment, warned, "Those who can make you believe absurdities, can make you commit atrocities"— and he ought to know.

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