19/19 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

July 20, 2020

The Pandemic still rules

Financial Markets

The equity markets closed the week on a mixed but generally positive note. The Dow ended the week up 2.3%, the S&P 500 up 1.2% and the NASDAQ fell 1.1%. A very interesting part of the market's performance is that it occurred during a week of disappointing pandemic statistics. Across the country, states reported increased cases of the coronavirus. Although positive performance and increased infections appear counterintuitive, we still believe the virus is the most significant influence on the financial markets. An interesting and encouraging point being this week's gains were led by economically sensitive stocks.

The Wall Street Journal reported over the weekend that, although the market had a positive week, the gains appear to have slowed from the remarkable rally from the late March lows. Having said that, there are some recent economic releases that are encouraging. Retail sales were up 7.7%, the number of Americans collecting unemployment benefits fell for the sixth consecutive week and most importantly, the National Association of Home Builders confidence level rose to 72 from 58. The reason we find this so important is the housing industry is a large employer of both skilled and unskilled labor.

The administration and Congress appear likely to pass a new stimulus bill in the near future, which should be encouraging to investors and business executives alike.

Secretary of the Treasury Mnuchin is reported to be considering the forgiveness of PPP loans for small businesses. This is very popular in the House and is likely to pass easily if the administration backs it. This, along with the highly likely extension of the entire PPP program, is very encouraging.

A lot has been written about the awful financial position many states and municipalities are in. Will they be able to issue new bonds? There is a growing movement in Congress to do something to bail them out. The administration's argument for not backing a bill has been that there must be a way to distinguish those borrowers who are in need because of the pandemic crisis from those who may have just been wasteful. This is a valid point, but, the bailout proponents make an equally valid point. We have to do something because bankruptcies of any state or group of states could be catastrophic. So, better to hold your nose and vote yes, looking towards the greater good.

Another topic often written about is the enormous debt loads governments have been taking on. We have not been overly concerned, explaining that, given the extreme circumstances, governments have time to work it out. Although, history has not shown governments to be particularly enlightened when it comes to handling debt problems. A good example is after World War I, when national governments went deeply into debt to cover the expenses of the conflict.

International

This is an interesting and confusing time for international economics. There are a number of relatively unique problems aside from the pandemic. The most obvious is the debate over globalization and trade. There have been two times in recent memory where trade and globalization were as front and center as they are now. The first was when Mao Zedong died and was succeeded by Deng Xiaoping and China went from isolationism to

"Capitalism with Chinese Characteristics." This marked China's entrance into the world trading community. Deng wanted China to lift itself from poverty and join the community of nations as a full partner.

The second was the forming of the E.U. The European Union was formed for two main reasons: first, to keep Germany at bay and second, to follow the United States into the world of prosperity. All was going well for the E.U. until the economies started to slow and serious unanticipated fractures became apparent. The first was labor mobility and the second, a supra government in Brussels. They created labor tensions and sovereignty issues. What is seldom recognized is that capitalism is not a monolithic theory. Two main streams appear to exist: an Anglo-American version and a European version. Just to add another complication, there are two views within the European version—that of the North and that of the South. Within the E.U., the divide between the North and South is hardening, with Germany and Holland leading the North and France and Italy, the South. The European Union is divided between the haves and the have nots. This divide is hindering the recovery process.

China is struggling with its own economic and political problems. We have written a lot about the economic problems facing China. There is no need to repeat, but President Xi's move toward a more Maoist state makes economic relations just that much more difficult. Until recently, the United States has been in the forefront of the debate, but now the European Union has entered the fray.

Argentina, again, is in danger of default on its debt. This, of course, is nothing new. It is just another concern that must be dealt with.

A very interesting read

This week's *Economist* magazine, pp. 67-68, has a very interesting story about the state of journalism in the United States. Some will agree and others will not, but it is an interesting, very current and important topic.

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