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Weekly Market Insights

October 5, 2020

The economy slows, the President is in the hospital and the stimulus bill remains in limbo.

The Markets

Although they were up for the week, U.S. equity markets closed Friday at a loss. The Dow finished up 1.87%, the S&P 500 up 1.52%, and the NASDAQ up 1.48%. It will come as no surprise to readers why. The market fell on the announcement that the President was being taken to Walter Reed Hospital after being diagnosed with COVID-19. We, of course, are in no position to say how serious it is. If the President remains hospitalized it will cause many problems but probably not to the economy. Nevertheless, it will be better if he is released soon. In any case, the health of the President will surely dominate the news for a while.

The U.S. Economy

A number of economic reports were released this past week. Most showed the economy growing at slower pace than in the initial recovery. In many ways that should have been expected. As we have written in the past, indicators will fluctuate over time. There will be times when a growing economy will show growth in a particular indicator one month, followed by a negative month, then it may resume its positive path. In the case of the most recent indicators, they did not go into negative territory, but they slowed. There is a reason why analysts should have expected this. Most analysts and investors expected a renewed stimulus bill to have been passed by this time. Instead, the bill remains in limbo. Both the economy and markets await the passing of the bill that languishes while both sides jockey for political leverage. We are confident a bill will pass, but its eventual size is anyone's guess. After it passes, the most likely result will be a boost for the equity markets and the economy.

Central Banks

The Federal Reserve has been stalwart in its efforts to keep the economy afloat. Unfortunately, there is only so much monetary policy can do to stimulate the economy. They are doing all they can. Robert Kaplan, president of the Dallas Fed, spoke the other day. In his remarks he said it was his opinion that if the economy showed signs of slowing the Fed would continue its emergency lending facility.

Since we are writing about regulators, there was an interesting article in Sunday's *Financial Times* about regulators cracking down on illegal market manipulation. As an example, regulators fined J.P. Morgan Chase $920 million for manipulating apparent market demand for precious metals and government bonds. The scheme is called "spoofing." It consists of rapidly buying and selling securities to give the impression of higher demand.

Those readers who would like a more in depth discussion should read this past week's *Financial Times*. Anything that levels the playing field is a positive, but monetary policy has its limits. Christine Lagarde, president of the European Central Bank (ECB), said in a speech during a recent ECB conference that quantitative easing would continue for some time. In her speech, she discussed the interplay between monetary and fiscal policies and said, "Fiscal policy empowers monetary policy by fostering demand, which brightens economic prospects…And monetary policy makes fiscal policy more effective, because when monetary policy is at the lower bound…fiscal multipliers[1] are higher."

This, of course, is true for the United States as well as Europe and goes a long way in explaining the softness of recent economic indicators.

The Future

We have been reading and listening to some very bright people formulating ideas about the changing political and economic global alignment. It is a fascinating discussion. As we learn more we will discuss these in future articles. We hope you will find both stimulating and enjoyable.

[1] In **economics**, a **multiplier** broadly refers to an **economic** factor that, when increased or changed, causes increases or changes in many other related **economic** variables. In terms of gross domestic product, the **multiplier** effect causes gains in total output to be greater than the change in spending that caused it.

Michael Olin Clark moclark@1919ic.com | Ryan Schutte rschutte@1919ic.com

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