1919 INVESTMENT COUNSEL
Complexity to Clarity
100 YEARS

Weekly Market Insights

October 7, 2019

Confusion Reigns

It was, again, a volatile week in the Equity markets. The Dow closed down -0.92%, the S&P 500 fell -0.30% and the NASDAQ was up 0.54%. The closing numbers don't nearly do justice to the market's behavior from Monday through Friday. While most of the country and, certainly, official Washington remained fixated on impeachment, two seemingly conflicting economic statistics were released.

Economics

The National Association for Business Economics[1] issued their quarterly economic outlook. The survey is more pessimistic than last quarter but the panel believes the economy will continue to expand through 2020, at a rate below 2%. A more detailed analysis will follow next Monday.

Last week, the ISM Manufacturing Index and the Employment report were released. The ISM Manufacturing Index was the first report to be released and it was disappointing for investors. The Index was reported at 47.8, which is well below expectations. Not only is it below expectations, but it argues that manufacturing is declining. Investors reacted just as one might expect - equities fell sharply.

Next came the Employment report and that release was quite positive. Immediately, the market corrected and reversed course. A good employment report is, of course, quite positive for the economy. After all, the consumer represents somewhere between 65 and 70 percent of the economy. So, with employment rising along with wages, investors became more sanguine. But the weak Manufacturing Index should not be ignored. Manufacturing often leads the consumer in indicating a recession is near. We feel at this time, however, the employment numbers give us a better picture of where the economy is heading. The trade war is, of course, slowing exports, which heavily influences manufacturing and manufacturing, although important, is a decreasing percentage of U.S. GDP. It represents about 10% of GDP.

Impeachment

Impeachment continues to be an overhang on the financial markets. It seems remarkable that there is not more market reaction. Perhaps market participants are aware that given the make-up of the House and the Senate, the most likely outcome will be that the House votes for an impeachment indictment and the Senate rejects it. People around the globe are becoming accustomed to events that might have shaken them to their very core just a few years ago.

Europe and the ECB

Europe continues to suffer in the economic doldrums. While this continues, there has been a change in leadership at the European Central Bank (ECB). Mario Draghi's presidential term has come to an end and his successor, Christine Lagarde, has assumed the role. Ms. Lagarde has a very tough road ahead. Mr. Draghi has given her an incoming gift. He has pushed through another bout of monetary easing over the wishes of some countries such as Germany. As we have written often, what the E.U. needs is not only an easy monetary policy, but a coordinated bout of fiscal stimulus. Ms. Lagarde is well aware of this, as was Mr. Draghi, but he ran into significant pushback from many countries. As most are aware, the members of the E.U. have a common monetary policy, but each country has its own fiscal policy. But, there may be hope; French President Emanuel Macron has recently spoke out in favor of a strong coordinated fiscal policy effort by the E.U.

Ms. Lagarde is well acquainted with the Euro area's institutional arrangements. IMF staff has argued for a stronger fiscal relationship among the E.U. members. The new President is an extremely bright executive and well known among E.U. leadership, so perhaps some fiscal policy coordination is on its way.

[1] I am a member

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