1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

January 25, 2021

Equity markets remain strong, President Biden's initial choices show a center-liberal bent, and Pollyanna perhaps?

Equity Markets

U.S. equity markets finished higher on this holiday-shortened week. The Dow closed up 0.59%, the S&P closed up 1.94% and the NASDAQ closed up 4.19%.

Although these numbers are not eye popping, they are more important than they may appear at first glance. Investors are just getting over a very contentious campaign, a disputed election, a terrible scene at the capital, and the early introduction of the new president's cabinet and plans. The president's appointments and executive orders should not cause any great concern. They have been mostly toward the middle, perhaps slightly to the left, but anyone following the election should have expected this.

The Economy

It bears repeating, as we do each week, that the performance of both the economy and financial markets will eventually depend on the path of the pandemic.

The United States is doing remarkably well given the difficult circumstances; however, the news about of the distribution of vaccines across the nation is not the most encouraging and new strains are showing up. It is remarkable that the equity markets continue to advance. Why? There are a number of reasons. The first and most obvious is that the new president and his newly appointed Secretary of the Treasury, Ms. Yellen, are foursquare for an enlarged stimulus package. Second, the Federal Reserve has let it be known that it will continue to be the lender of last resort. Both are powerful messages for investors, but these measures are temporary intermediate steps. They alone don't explain investors pushing equity markets to new record levels. There are a few explanations offered, some or all of which can be correct. This recession is far from normal. Most recessions are caused by a serious imbalance or a policy mistake. Imbalances can be in the debt market or labor market. When we think of policy errors, most think of the Federal Reserve tightening at the wrong time. While this is the most frequent mistake, both the executive branch and the legislature can err as well. Neither of the above is the current case. This recession has not been caused by internal economic factors. It has been caused by an external shock to the system—the pandemic. Consequently, there are no excesses to wring out of the system. When the pandemic begins to show signs of receding, the economy will most likely make a rapid recovery.

A second and equally important encouragement for investors is the promise of stimulative fiscal policy actions. Some examples are investment in clean energy, both in developing clean energy sources and new cleaner ways to extract energy from natural gas and petroleum. Another area that needs attention is infrastructure improvements to roads, bridges, harbors and railways, to name a few. All of these of course cost money. There will be plenty of arguments that the government is loaded with debt already and should not take on more. This of course is true, and it would be better if this started with a very low federal debt level. That doesn't change the fact that the country needs these policy actions, and, as most economists will affirm, if an investment pays a positive return in excess of the cost, it is a net positive. This, along with the extraordinarily low interest rates, argues to embark on these projects.

We haven't mentioned the investment with the highest payoff of all—education! Most employers, particularly those in technology, science, and manufacturing, have complained about not being able to find qualified employees. This is a powerful detriment to a modern economy and must be addressed.

Last, we will mention supply chains. There almost certainly will be movement of supply chains and some will likely be repatriated to the United States. This will bring large investment in construction, technology, and the need for qualified labor.

Weekly Market Insights (cont'd)

All of this seems like a lot to hope for, but even if fifty to seventy percent comes about, it will be a strong stimulus for the U.S. economy and the start of a new cycle.

Of course, there are plenty of caveats. The president may not push for many of the plans he spoke of during the campaign, or the government may find itself in another stalemate. Regardless, there is an opportunity, and this may be what the bulls are counting on.

International

International diplomatic relations, along with the international economy, appear to be going through significant changes. We have written often in the past about our view that globalization doesn't stop; it simply evolves and mutates. As we wrote last week, we are likely to be in a period of change. We wrote about China, and, in the past, about changes in the E.U. and the U.S. Next week, we will spend time looking at how these changes within China, the E.U. and the United States affect global economic relations. Now more than any time in history the worker in the most remote area is influenced by economic decisions made half a globe away. The world is changing rapidly and the challenges are far different from what they used to be. Unfortunately, global institutions meant to address them have not evolved at nearly the same rate and are in danger of becoming irrelevant. It is time to revamp.

As we watch the economy evolve, investors must remember economics does not move in a vacuum. It reflects all around it, and, at the moment, politics is a large factor.

See us next week.

Michael Olin Clark
Senior Advisor
moclark@1919ic.com

Ryan Schutte
Senior Portfolio Associate
rschutte@1919ic.com

Abigail McKenna
Senior Portfolio Associate
amckenna@1919ic.com

Please click here for the updated Economic Release Calendar – January 2021.