Weekly Market Insights

February 16, 2021

The Impeachment trial is over, the pandemic declines and the markets gain.

Reports concerning the pandemic were encouraging. While the overall number of deaths continues to climb, the pace of the increases is slowing, and new infections have declined to levels last seen in November.

Equity Markets

Equity investors appear to have not been swayed one way or the other by the impeachment proceedings but were encouraged by the positive reports concerning the pandemic. The Dow gained 1.0%, the S&P gained 1.23% and the NASDAQ, 1.73%. Not only did U.S. markets post gains, but their overseas brethren also had positive returns. There were a number of reasons for this, but as we so often write, the markets take their cue from the path of the pandemic.

The Economy

Just as the equity markets have been dependent on the prospects for the advance or decline of the pandemic so have both the domestic and international economies. Of course, the nature of financial markets allows them to react almost instantly while economies react with a significant lag. This is why it is so difficult when an economy is in a recession to know just when to take one's foot off the fiscal and monetary pedal and explains why intelligent people can have very different opinions about whether to stimulate or not to stimulate the economy. This is the current situation with the difference of opinion between two highly respected economists who are generally in agreement—Larry Summers and Paul Krugman. Specifically, Summers is arguing to slow, while Krugman would like further stimulus.

As we pointed out, recent news concerning the pandemic has been encouraging. Yes, the death toll increased, and that is terrible, but that number is often a lagging indicator while new cases is a leading indicator. Also, vaccines are being distributed at an increasing rate, which, of course, is very positive.

The stimulus has also been effective, but, as Mr. Summers' argues, perhaps it can be cut back. To be sure, it is important to continue, but at what level? The economic evidence tells us that the family savings rate in the United States has risen to a very high level. While this appears counterintuitive, we pointed out last week the two logical reasons for this paradox. 1) People are saving in case they lose their job, and 2) since the checks went out to people whether in need or not, those who were not in need saved their check.

The other problem is that continued low interest rates may encourage bad investment decisions which confuse the Fed's job immensely. Mr. Summers' suggestion that checks should be sent out only to those in need makes sense and should not slow the recovery. We can use the chef's analogy. When following a recipe, you can always add more salt in the future, but you can't take it out.

The Global Economy

Analyzing the global economy is more complex. Russia, with the exception of energy, is not much of a player in the global economy and is having political problems. Although it is highly unlikely that change will take place, the demonstrations against Mr. Putin are gaining strength, and this is surprising.

China is an enigma. It wants to continue to advance its economy, expand its territory in the South China Sea, and above all, regain what they believe to be their rightful place as a global power. Despite all of this, their behavior appears to be working against their goals, particularly the last point.

As we have written many times, the E.U. is still trying to resolve the problems of having both a supra national government and each country having their own government.

Next week we spend more time on global issues.

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