1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

March 22, 2021

Markets slightly lower, the Fed reassures and the great debate rages on

Equity Markets

Equity markets closed modestly lower this past week. Investors are concerned over a number of outcomes that may occur as a result of both the debilitating pandemic and the efforts to combat the economic damage it has created. This past week was an ideal example. Positive news on the pandemic continued for the United States, while the debate about halting the Astra-Zeneca vaccine in much of Europe raged on. There was also discussion over the pros and cons of the administration's and Federal Reserve's efforts to set the economy on a sustainable growth path. The debate is very interesting, but like many economic debates, we won't know who is correct for a while, and it may possibly be some combination of the two.

The Economy

Where is the United States economy at the moment? We and most analysts believe the economy is in a recovery mode. Most economic statistics report a growing economy. The important question being asked is, is it time to stop adding fuel to the fire? In other words, has monetary and fiscal policy done their job, and is it appropriate to take the foot off the pedal? No matter how much we would like it, there is no definitive answer. Adding to investors' concerns is the apparent escalating conflict between China and the United States. There is also a highly public spat between Mr. Biden and Mr. Putin, which may be unpleasant, but it is not particularly damaging to the U.S. economy.

Chairman Powell did his best to reassure investors and economic agents that the economy was progressing and that any overshoot in growth would be temporary. Investors appeared not to find that comforting.

The far more interesting and important debate is whether continued aggressive monetary and fiscal stimulus is necessary or even dangerous. We wrote two weeks ago about a debate between Larry Summers and Paul Krugman. It should be no surprise to readers that Larry said enough and Paul said more when it comes to additional stimulus. This is really an important debate and the Fed and the administration must walk a thin line between the two.

We have argued a number of times that continued fiscal policy is still necessary. The country needs infrastructure work, beefed up education, and help for the long-term unemployed. It does not need payments to middle class families who are employed and can afford to put those funds into added savings. At this time, the stimulus should not be halted but reduced. Monetary policy also should begin to slow its aggressive stance. None of this argues that there should be restrictive fiscal and monetary policies, but they should be just a bit less aggressive. This may cause some temporary confusion and disruption in both equity and credit markets, but it would be temporary. Will this happen? Probably not. Too many promises have been made. We have not changed our view, and we remain concerned but guardedly positive.

Weekly Market Insights (cont'd)

Conclusion

Signals are mixed and inconclusive but continue to indicate a strong economy and positive equity markets. There is still considerable slack in the economy, and, as we pointed out last week, as economic demand builds in the United States, there is plenty of productive capacity around the globe, which should prevent inflationary stress. If the economy overheats, it does not appear to be in the near future.

In the absence of any startling events next week, we will write about the changing nature of globalism.

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