1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

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Markets advance, good economic news and a new fiscal stimulus bill

Equity Markets

Equity markets continued their climb into record territory this past week. They did this on the back of good news on the pandemic front and, as Ryan will describe, on encouraging economic data. Two other important pieces of information were released last week. One was the disturbing news of Bill Hwang's fund collapse and the other, the Administration's release of its second fiscal stimulus plan. This week we write about the President's new plan. Next week we will comment on the Hwang fund scandal. This is an important point because of the proliferation of large funds like Hwang's with access to a great deal of leverage.

The Economy

This second spending bill will come in two packages—first, an infrastructure bill and second, social spending. It is quite comprehensive, and, like most analysts, we find some of it positive and some either not so positive or not needed. Most, particularly the infrastructure part, should be reasonably acceptable to members of both parties. The two sticking points will be the social spending and, of course, the funding.

We do not object to anything in the first part. In fact, we have long argued that the packages should be enacted, and, as a bit of irony, they were espoused in then candidate Trump's first campaign. We have written often about this topic. Readers can find our past discussions by going to our website: [1919 Investment Counsel/Our Thinking/Insights & Perspectives].

The second half of the bill is not needed in its entirety. The country is clearly coming out of the severe recession and much of the immediate need for social spending is declining. So, with the country deeply in debt, and recovery likely, some elements of the bill may not be necessities. To be sure, some, such as childcare and the community college parts, are positive and over time would add to GDP, but the country is at a point where careful consideration must be given. This and the funding portion are where the Administration will face difficulties. We think a modified program will pass, with a bit less social spending and a revised funding scheme.

March Economic Update

Economic reports were mixed in March, however, those concerning the labor market and the consumer point to a possible re-acceleration of growth in the months ahead. While there is still room for improvement, particularly in the U.S. labor market, leading indicators look positive. With the rollout of another stimulus package in March, continued vaccinations, and progress with reopenings, the economy looks fueled for an economic bounce.

Despite recent headlines, inflation readings appear muted with the Federal Reserve's preferred inflation gauge, the PCE index, coming in at a 1.6% annual rate. As a reminder, the Fed maintains a long-term inflation target of 2% but will accept temporary fluctuations above or below this point. In the housing market, home sales data disappointed, however, some of the miss can be attributed to

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February's weather-related disruptions and low housing supply. Housing prices have continued to increase, with the most recent Case Shiller Housing Price index reading increasing 11.2% year over year.

Retail sales dropped 3% in February, coming in lower than consensus expectations for a 0.7% decrease. Personal consumption and income measures also dropped significantly, losing 1% and 7.1%, respectively. While these readings appear concerning at first glance, the declines come after a stimulus-fueled bounce in January when $600 stimulus checks were distributed to individuals earning less than $75,000 and families earning less than $150,000. Furthermore, winter storms disrupted much of the country in February, likely curbing travel, outdoor dining, order pickups, and consumers' ability to spend. Looking at more timely TSA Traveler Throughput and OpenTable reservations data, mobility seems to have decisively turned positive. With heightened activity and the positive tailwinds mentioned previously, we expect positive readings going forward.

Thus far, labor market improvements have been slow and hard to come by, but the most recent employment report surprised to the upside with a gain of 916 thousand and upward revisions to prior reports. Furthermore, the unemployment rate decreased to 6% and labor force participation increased to 61.5%. Hourly earnings ticked lower, but this may actually be a positive sign. Reason being, the pandemic hit lower earners the hardest, and, as these jobs are recovered, we expect average earnings to decline as well. The ADP Employment survey was positive with a 517 thousand increase in nonfarm private sector employment. Gains were spread evenly amongst small, midsized, and large businesses, and the leisure and hospitality sector experienced the largest employment gains with 169 thousand new jobs. Weekly unemployment claims fluctuated throughout the month, but both initial and continuing claims came in at or near pandemic lows in the most recent report. The U.S. labor market continues to heal, and vaccinations along with continued reopenings have allowed for durable improvements to occur. We expect the labor market recovery to continue.

Perhaps the most encouraging news came with the Michigan Consumer Sentiment and Conference Board Consumer Confidence readings, with both indexes reaching their highest levels since the onset of the pandemic. The underlying expectations and current situation components increased significantly for both indexes. This makes sense given the recent distribution of a third round of stimulus checks and improving coronavirus trends. Interestingly, one-third of the Sentiment survey respondents voiced an impatience with isolation—the highest level the past year. Furthermore, the Confidence Survey indicated that consumers' renewed optimism boosted their purchasing intentions for the months ahead. A strong consumer is paramount to the continued U.S. economic recovery, and while March's consumer confidence and sentiment reports were promising, they are still far from their pre-pandemic levels.

With a solution to the health problem in place, the discussion is no longer about how to provide support to struggling areas of the economy but how to rebuild them. As the country moves toward herd immunity and permanent reopenings continue, we expect positive economic reports in the months ahead.

Michael Olin Clark
Senior Advisor
moclark@1919ic.com

Ryan Schutte
Investment Associate
rschutte@1919ic.com

Abigail McKenna
Senior Portfolio Associate
amckenna@1919ic.com