

Weekly Market Insights

April 12, 2021

An Excellent Week for Equities

Equity Markets

This past week was another excellent week for equity markets. They again reached record levels. The Dow gained 1.95% to close at 33,801, the S&P 500 gained 2.71%, closing at 4,129, while the NASDAQ was up 3.12%, closing at 13,900. Investor behavior did not appear irrational. Markets did not explode but rose in a measured fashion, Friday being a good example. Investors appeared to be digesting the good economic news, and the reports concerning COVID-19 were positive.

Economics

Whether investors like it or not, as the new administration begins to present its spending bills, make administrative appointments, and become more vocal, economics and politics become highly intermingled. Of course, this is always the case, but it is far more important when there is a new administration, and this time is no exception.

Economic releases have been positive, particularly on the jobs front. As most are aware, the consumer is nearly 70% of the economy. The reason, of course, is that job creation creates income flows, which lead to increased spending, resulting in a growing economy, and, in turn, creating more jobs. A very nice chain of events. There are, of course, many more benefits. Vaccine distribution in the U.S. continues to expand which will lead to a greater opening of the economy.

The Federal Reserve has reaffirmed its commitment to keep rates low. This encourages equity investors and reduces the competition for investor dollars

between equities and bonds. Although the Producer Price Index was higher than expected, this did not affect Fed behavior. In one of his recent presentations, Chairman Powell said that the Fed expects inflation to rise early in the recovery but then retreat as production grows. The Fed, at least for the moment, expects higher inflation to be temporary.

The President's spending package is highly stimulative. We have commented on this the past few weeks and maintain a positive view on infrastructure spending. Readers can go to our website to review our previous articles. How the Administration is going to pay for this is a different story. Even though they have laid out a plan, it will certainly change as it goes through Congress.

We feel the outlook for the United States economy is positive. As the Peterson Institute for International Economics writes, "In the United States, pandemic-constrained consumption and generous fiscal support have left consumers with ample resources to finance their pent-up demand." We expect vaccinated consumers to start to fill the wants that the pandemic previously prevented them from satisfying.

More on the recovery bounce next week.

Conclusion

We remain positive on equity markets. Certainly, there can be a correction, but we would not reduce our exposure at this time.

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