

Weekly Market Insights

June 1, 2021

Markets earn moderate gains and an outsized budget plan is released

Equity Markets

U.S. equity markets rose this past week, giving the S&P 500 and the Dow their fourth straight month of gains. The Dow gained 0.94%, the S&P 500 gained 1.16%, and the NASDAQ rose 2.06%. Investors overcame their concerns about inflation and the possibility of the Federal Reserve changing course. We have covered both in the past three weeks but to repeat our view, the inflation numbers investors see at the moment are transient and the Fed will not tighten any time soon.

The Economy

The U.S. economy continues to show strength in almost all sectors. Low interest rates, government assistance, and receding Covid-19 cases have encouraged consumers to spend and break out of their pandemic imposed isolation.

In the face of these positive gains, President Biden has announced his budget. Its size is extraordinary and has raised many questions from both investors and economists. Of course, it raised the ire of many Republicans, but that should be expected. It is the initial gambit and both parties are maneuvering for position.

The size of the budget is getting an enormous amount of attention. That also is to be expected and given its size is easy to understand. We have long argued that investors and indeed citizens should be far more concerned about where the funds are going rather than how much. That is still the case.

In the past two months, we have discussed the need for significant infrastructure spending. The U.S. has ignored its infrastructure for quite a while. Some examples are: roads, bridges, railroads, harbors, communications systems, and power grids. The proposers are correct that the program will create jobs quickly, but even more important is that it creates a fertile ground for advancing the economy and public welfare well into the future. These investments are needed and if properly constructed, will pay for themselves over time.

The second area of spending is for education. It is hard to argue against having an excellent school system where all children get a first-class education. That has not been the case for years. The United States has been falling in global education rankings, but are we at the bottom? Not even close, however, we used to be first. In their campaigns, both President Trump and President Biden argued for better use of community and junior colleges, a collaboration between them and industry, and for job training and apprenticeships. It is time to really do it. That is a sure way to raise productivity. That, in conjunction with infrastructure spending, will bring a giant boost to U.S. productivity, raising incomes for years to come, and will pay for itself over time. Although there may very well be a need for tax increases now, future dividends will be great.

Social spending is very different. Much of the debate should be in the hands of behavioral welfare economists, but it also has an effect on incentives and productivity.

Weekly Market Insights (cont'd)

At this point in the economic and pandemic recovery, there are certain expenditures that seem unnecessary and potentially counterproductive. In a rapidly falling economy with rising unemployment, federal add-ons to unemployment pay was needed. Now, with job creation in full bloom and employers having difficulty finding employees, it seems an unnecessary expense and even counterproductive. Government subsidies for childcare, on the other hand, make plenty of sense.

Sending money to families or individuals is welfare. Welfare in many cases is necessary and positive, however, some sociologists and economists think it perpetuates poverty. A better way to funnel funds is to use the Earned Income Tax Credit.¹

Next week we will explore global trade.

¹The Earned Income **Tax** Credit (EITC) is **money** the federal government provides to low income working people to help them make ends meet. The EITC is a refundable credit. This means you can collect it even if you don't owe any federal income **tax**. It's free **money** from the federal government.

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