19 19 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

June 14, 2021

The inflation threat, the economy, and the G7

The Financial Markets

Investors appeared to step back a bit this past week to reflect on where we are. The Dow lost 0.80%, the S&P 500 gained 0.41% and the NASDAQ rose 1.85%. While the established market's performance remained muted, the meme stocks, such as AMC Entertainment, rallied strongly. A mounting concern among equity investors is the possibility of growing inflation. Interestingly, the Treasury market, the most sensitive market to inflation, did not reflect that fear. The yield on the 10-year Treasury note fell to 1.46% (down from the March high of 1.74%), the opposite of what one might expect.

The Economy

There is an interesting debate that has been going on for some time. Is the current monetary policy combined with fiscal policy setting the stage for a bout of high inflation? We believe that answer is yes, but that assumes these policies will continue unabated. This debate has attracted the best and the brightest of the economics profession. For example, Princeton sponsored one featuring Larry Summers and Paul Krugman. This was a particularly fascinating exchange, given both consider themselves progressives and were on very different sides of the issue. Krugman was on the side of no inflation with Summers on the side of high inflation.

Just Friday evening, Dr. Summers went a little deeper into his view that the United States is in danger of a bout of high inflation. He qualified his earlier view that, if the Federal Reserve continues to provide excessive monetary stimulus and the government continues to provide a heavy dose of fiscal stimulus, there is a great danger of high inflation. He went on to say that, in his view, one of the least necessary parts of the fiscal package, the supplemental unemployment benefits, will be running off in September. While he hasn't changed his view on potential inflation, he feels this will diminish the danger to some degree.

A good way to look at economics is simply thinking in terms of supply and demand. Anything that increases demand is going to raise prices and anything that increases supply is going to reduce prices. That is a very simplified thought but helpful nonetheless. Our view is that inflation will be transitory at least until late 2022 or 2023.

A very positive development occurred in the Senate. Democrats and Republicans passed an Industrial Policy bill authorizing $250 billion in spending. The bill allocates $52 billion to building the U.S. semiconductor business, $81 billion to research and development, and $120 billion to technologies, such as artificial intelligence and quantum computing.

Global Economics

There is a lot of interesting and vital activity in the global economy. Of course, the most published is the G7 summit where President Biden is on the global center stage. He is facing some difficult challenges. One is that he is coming in with a very different world view than his predecessor. The first thing he must do is convince other leaders that he represents the U.S. world view.

The President has been a fixture in world affairs for many years. He has espoused the virtues of the Washington Consensus.[1]

Weekly Market Insights (cont'd)

International economic relations are changing rapidly. The Washington Consensus was only as good as other countries' belief that Washington stood behind it four square. That view is not entirely rejected but is in some doubt.

Europe has fallen behind in important economic ways. A good example is technology. They are way behind the U.S. and China. The rise of China has made many in Europe seek to play China against the U.S.

Another question world leaders are attempting to answer is how to handle the growing power of technology companies. Specifically, what is the correct way to tax these multinational companies? These will all be discussed at the G7 and we will keep you informed.

Last

You may have received by email a recap of our internal Intellectual Capital Conference we held a few weeks ago. I urge you to read it, as it is both interesting and enjoyable. The article can also be found on the 1919 Investment Counsel website (https://1919ic.com/) in the Featured Articles & Videos section.

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[1]The **Washington Consensus** is a set of ten economic policy prescriptions considered to constitute the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank and United States Department of the Treasury.[1] The term was first used in 1989 by English economist John Williamson.[2] The prescriptions encompassed free-market promoting policies[3] in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.

Subsequent to Williamson's use of the terminology, and despite his emphatic opposition, the phrase Washington Consensus has come to be used fairly widely in a second, broader sense, to refer to a more general orientation towards a strongly market-based approach (sometimes described as market fundamentalism or neoliberalism). In emphasizing the magnitude of the difference between the two alternative definitions, Williamson has argued (see § Origins of policy agenda and § Broad sense below) that his ten original, narrowly defined prescriptions have largely acquired the status of "motherhood and apple pie" (i.e., are broadly taken for granted), whereas the subsequent broader definition, representing a form of neoliberal manifesto, "never enjoyed a consensus [in Washington] or anywhere much else" and can reasonably be said to be dead.

Discussion of the Washington Consensus has long been contentious. Partly this reflects a lack of agreement over what is meant by the term, but there are also substantive differences over the merits and consequences of the policy prescriptions involved. Some critics take issue with the original Consensus's emphasis on the opening of developing countries to global markets, and/or with what they see as an excessive focus on strengthening the influence of domestic market forces, arguably at the expense of key functions of the state. For other commentators, the issue is more what is *missing*, including such areas as institution-building and targeted efforts to improve opportunities for the weakest in society.

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