1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

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Volatility continues and U.S. economic views

Equity Markets

Upon returning after a three-week absence, we were greeted with a week full of volatility. If it proves anything, it shows the disruptive power of COVID-19 is still there. The apparent cause was investors' increasing alarm concerning the newest iteration of the pandemic—the Delta variant.

Equity markets fell sharply this past Monday only to rally the rest of the week. All three major indexes ended the week in record territory. The S&P was up 1.96%, the Dow up 1.08% and the NASDAQ up 2.84%.

Of course, there was more to worry investors than the latest COVID scare. Fears of slowing earnings, rising inflation, and Federal Reserve intervention all weighed heavily on investors' minds. More on that when we get to economics.

One asset that did not perform well was Bitcoin. Since peaking in mid-April, Bitcoin has been falling steadily for some time now. This past Friday's July 23rd *Wall Street Journal* has an excellent article concerning Bitcoin's fall. It discusses its apparent failure as an inflation hedge. Although the piece does not claim to be determinant, it is well worth reading.

Economics

As we have written previously, investors appear to have four primary concerns—a COVID resurgence, inflation, an earnings slowdown, and an end to expansionary Fed policy.

As stated in the past, we hesitate to discuss any new developments in the fight against the pandemic. However, one thing is clear. More health officials are calling for their constituents to get vaccinated. That should be a positive for vaccination rates.

Our view has not changed about inflation. We agree with both the Fed and the Treasury that the waves of inflation we see are transitory and are caused by temporary bottlenecks. These inflationary pockets should subside with the natural progression and reopening of the economy. Just as inflationary pockets will occur, so will earnings slowdowns. The economy will adjust. As unemployment insurance returns to normal and workers return to work, wage pressures will soften. The Federal Reserve has continued to tell investors and business managers that they also believe inflationary pressures are transitory. This argues strongly against any tightening in the near or intermediary future.

These factors argue for positive market performance, albeit at times volatile.

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