Weekly Market Insights

August 9, 2021

Equity markets remain strong, the economy continues to produce jobs, and should the Fed reconsider?

Equity Markets

United States equity markets continued to show strength this past week. The Dow ended the week up 0.78%, the S&P 500 ended up 0.94%, and the NASDAQ closed up 1.11%. As always, investor concerns remain. Perhaps the standout is the renewed advance of the Covid-19 Delta variant. If there is any encouraging takeaway from the new outbreak, it is a greater acceptance of vaccines. Economic and political turmoil in China continues to confound investors and analysts. The following are hard to analyze due to a lack of knowledge—Delta, due to the novelty of the variant, and China, due to the extreme secrecy of the Xi regime. The clear positive in the economy is the strength of the U.S. recovery, as made evident by last week's jobs report.

This past week's jobs report gave investors solid evidence that the U.S. economy is continuing to grow at a robust pace. Employment growth is a key variable in consumer spending which most economists and we believe is a, if not the, key variable to economic growth.

A very optimistic piece of economic news is the likelihood of the passage of the infrastructure bill. We have written a lot about why the passage of this bill is important. It is legislation that creates economic progress and pays for itself. This good news about the economy forces the question—is it time for the Fed to end its extraordinary easing program? It is a tough question because of the consequences of being wrong. We believe the Fed should be thinking about ending some of the extraordinary easing. Nothing heroic is called for, but it is time to rethink their position. This becomes particularly important if the infrastructure bill passes. The bill is an important piece of economic stimulus and should be accompanied by a series of small reductions of monetary stimulus.

China has dominated the economic press. Much is happening both politically and economically. On November 15, 2012, Xi was elected General Secretary of the Communist Party and Chairman of the CCP Central Military Commission by the 18th Central Committee of the Communist Party of China. At that time, many analysts believed China was about to reinvigorate Deng's efforts to make the Chinese economy and politics more liberal.

China has grown very rapidly in the years of Xi's reign, but the opposite economic and political shift has occurred. Political crackdowns on any dissent became the rule. Now the party is making intrusive moves into the financial arena. The obvious example of this is Hong Kong, but there are many more. U.S. and global investors are increasingly concerned about where this is all going. Some feel it is just growing pains. I doubt it. It appears more like a return to Mao Zedong and Party control over almost every aspect of life. As many Chinese companies grew rapidly, the leaders gained in stature and spoke out, at times contradicting the party line. Xi realized the danger in this and cracked down. No one knows where this ends, but it is important and must be watched.

Conclusion

There doesn't seem to be any unusual or great danger for investors at this time. Markets, by their very nature, have dangers investors cannot see nor anticipate. Therefore, as always, make sure your portfolio is appropriately allocated.

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