

Weekly Market Insights

August 16, 2021

A slow but record-breaking week, the economy remains solid, and global developments

Equity Markets

While the Dow and S&P 500 posted records this past week, the markets were not particularly active. Many market participants were on vacation, and, perhaps some were taking a break from the past torrid pace. In either case, it is probably a good thing. As you will read, there doesn't appear to be any economic news in the near future that would derail this positive market. There are, as usual, political problems that could boil over which investors should follow.

Economics

Last week's economic releases were encouraging for both the economy and the equity markets. There was positive news on the inflation front, with a moderation in advance of the Consumer Price Index. This moderation will likely continue for the foreseeable future. As readers know, we have not been overly concerned about the high inflation reports. A strong argument can be made that the current inflationary spurt is more a function of how 2020's recession started—a collapse in consumption and a rapid disruption of supply chains, both foreign and domestic. These supply chains should move back to normal as the Covid crisis eases.

Consumer credit increased \$37.7 bn. in June. It was the largest increase in the last ten years. This appears to fly in the face of the Consumer Confidence Index, which fell 11 points in August. While it is hard to explain, these dichotomies in economic statistics occur with some frequency.

Last, but certainly not least, is Nonfarm Business Productivity rose 2.3% in the second quarter. Whether this continues or not is difficult to say. The pandemic has distorted both labor market and productivity numbers. Investors should not be surprised by some confusing reports and potentially related market volatility.

Global Developments

This past week we saw a lot of interesting and disturbing occurrences around the globe. Although we avoid commenting on political events, it is important to point out those that we think investors should watch. We, along with almost everyone, consider what is happening in Afghanistan will have lasting effects. Most discussion revolves around what will happen to the country itself and the United States' presence there. We think another large and important country may be affected—China. If ever there was a nonreligious/non-Muslim country surrounded by the Muslim world, it is China. To list a few, Pakistan, Burma, Indonesia, India, and large portions of China, where Muslim minorities have been persecuted. If Islamic fundamentalism should spread, China should be very concerned. Many very interesting things are happening in China, and a lot has been written about it. Next week we will spend some time on them.

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