

Weekly Market Insights

August 30, 2021

New records and Chairman Powell does just fine

Equity Markets

U.S. equity markets reached new highs this past week. The Dow closed the week up 0.96%, the S&P 500 up 1.52%, and the NASDAQ up 2.82%. A week ago and early this past week, investors were fixated on the possibility of another COVID-inspired recession. They were very concerned about what Chairman Powell would say about monetary policy in his Jackson Hole speech. The Delta variant continues to spread, mostly in areas where inoculations have not been widely accepted, but vaccination rates appear to be increasing. After Mr. Powell's address and some minor market indigestion, investors appeared to accept Fed logic and the market moved ahead.

The Economy

Investors and analysts were waiting to hear what the Fed had to say, and, after a bit of concern, they accepted the Fed's message and took markets to new highs.

The Chairman, in his presentation, reviewed the aftermath of 2020's COVID-inspired recession and how the economy was responding to their efforts. The economy is responding but unevenly. A good example is how the less educated and poorer population was hardest hit and slowest to recover. As an aside, the fact that the less well-off have been the slowest to recover should be of no surprise. For the most part, fighting the recession was left to the Fed, and their policy tool is monetary policy. Monetary policy is effective, but it works from the top down. The wealthy benefit first,

and, as they spend, the benefits move down the ladder to the less well-off. It is a slow process. In this particular case, there was an unusual result. Much of the money put into the system went into savings, not spending, which slowed the system down.

An important point he made was the difficulty in attempting to forecast this particular recovery. It is a point we have tried to make. Because of the unique nature of how the recession started, statistics coming out of the economy can be misleading compared to other recoveries. It is more important than ever to study the progression rather than individual reports.

The economy is now clearly recovering at a reasonable pace. Many analysts, led by the highly respected Larry Summers, have warned of looming inflation if the Fed continues to put money into the system at the current rate. The Fed has been listening. Mr. Powell told investors that the Fed might begin to slow the rapid pace of monetary stimulus. Investors appear to have accepted this logic.

Conclusion

We agree with Mr. Powell. The Fed has told investors that they would carefully watch the economy to prevent it from overheating. Furthermore, he reaffirmed the Fed's commitment to both of its mandates—full employment and low inflation.

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