

Weekly Market Insights

September 13, 2021

COVID-19 and Uncertainty in the Land of Oz¹

Equities

All three major markets posted losses this past week. The Dow closed down 2.15%, the S&P 500 closed down 1.69%, and the NASDAQ closed down 1.61%.

On Friday, the markets tried to make a comeback but failed. Investors faced a few obvious concerns last week, not the least of which was a series of disappointing economic releases. It should not be a great shock for investors that some disappointing economic statistics have been reported following a series of excellent reports that could not be sustained. There were other contributing factors. Perhaps the most important was the resurgence of COVID-19 with the Delta variant. Another possibility is whether this is a market correction.² If it is, then there should be no great concern since corrections self-correct. Unfortunately, it is difficult to know when a market correction is occurring in the moment. Fortunately, corrections are normal, short-term, and self-correcting. Nevertheless, there are plenty of reasons for investors to be confused.

The Economy

Even with the disappointing economic releases, the U.S. economy appears to be in good shape. It is certainly possible that the economy has slowed a bit from the torrid advances it was making, but that is to be expected.

Investors were frightened by the Federal Reserve changing course and their decision to begin tapering sooner than anticipated. The Fed did say that they were looking carefully at their monetary posture, and, if the economy continued to grow at a rapid pace, they might make adjustments. We do not think investors should be fearful. The Fed will not do anything drastic. If the economy appears to be slowing, the Fed will not change their accommodative policy. If the economy is rapidly growing, then they will go to neutral but not tighten. There is nothing to be feared in either scenario.

The Washington Theater

Investors should pay close attention to Washington. There are a number of important items for investors and the economy. Raising the budget ceiling will be debated, but, as always, it will be raised. More important items are tax policy and the infrastructure bill. Tax policy has both long and short-term consequences for investors and the economy in general. The infrastructure bill is very important for the future. Infrastructure is about creating building blocks for future production. The bill will be passed, but how much will it be watered down? Tax policy will be bitterly fought both within parties and between parties. We will keep you informed.

¹The magical land from the movie, The Wizard of Oz.

²A correction is a **decline of 10% or greater in the price of a security, asset**, or a financial market. Corrections can last anywhere from days to months, or even longer. While damaging in the short term, a correction can be positive, adjusting overvalued asset prices and providing buying opportunities.

Weekly Market Insights (cont'd)

The Land of Oz

In our title, we mention the Land of Oz, the mystical land where Dorothy and her dog Toto were transported. A comparison of the economy and the Land of Oz appears fanciful, but in some ways makes sense. The current economy is confusing, both short-term and long-term. Short-term investors are faced with a health crisis that continues to ravage the globe.

What will the economic world look like after we get past the worst of COVID? More like Oz, technology is rapidly changing the landscape in every way. New forms and usages for technology are becoming obvious all the time. Even now, we see governments wrestling with how to control it. We read every day about crypto currency, artificial intelligence, and super computers, but many people do not truly understand them.

The future is very much like Oz, very confusing and disconcerting, but Dorothy and Toto eventually got back to Kansas. People were initially frightened by the Industrial Revolution, but, in hindsight, we know it was wonderful for the economy, financial markets, and for society as a whole. The objective of this little foray is to remind investors that markets are mysterious and wonderful mechanisms. They reflect peoples' fears, hopes, and knowledge, whether correct or incorrect.

Conclusion

We are in uncertain times, and there is an opportunity to take advantage of it. Investors should examine their portfolio, as this is an excellent time to rebalance.

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