1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

September 27, 2021

An exciting week for investors

Equities

The U.S. equity markets had an interesting and volatile week. Happily, for most investors, two out of three major markets ended the week with gains. The Dow closed the week up 0.62%, the S&P 500 rose 0.51%, while the NASDAQ ended even. Given the volatility, most investors ended the week with a sigh of relief.

Investors were motivated by the same factors we wrote about last week, but one new one was added. Investors were confronted by the rumors that Evergrande, one of the top two property developers in China, with a massive debt load, might default on one of its U.S. dollar denominated bonds. It did. Market participants apparently accepted this, and the markets recovered. China's financial problems are larger than Evergrande.

The Economy

The latest on the Democratic $3.1 trillion social spending bill is that it appears very likely that the bill will fail in its current form. The question is, will this failure disappoint investors, and will that disappointment be reflected in the markets? We think not. First, physical infrastructure is far more important for the economy in the short-run. Second, a smaller social spending bill will almost certainly pass. We believe the bill will pass when the Progressives in the Democratic Party come to the conclusion that something is better than nothing. Their stance at the moment is if they cannot get the $3.1 trillion, they will block the Infrastructure bill altogether. We expect a compromise. At least in the short-run, the physical infrastructure bill is more important to the economy and the markets than the $3.1 trillion social spending bill.

Meanwhile, investors anxiously await the passing of a spending bill in Washington. The new fiscal year starts Friday, October 1. If a spending bill is not passed, the Treasury won't be able to pay its obligations and will have to make cut backs. We believe this is unlikely.

The Fed, on the other hand, has been far clearer. They are optimistic enough about the progress of the U.S. economy to say that they will slow their bond buying stimulus. This statement alone is a vote of confidence in the strength of the economy. This should encourage both investors and business leaders. However, they also told us that, if the economy disappoints, they will not hesitate to continue to buy bonds. This reaffirmation of the Fed's determination not to let the economy fall into a recession should also comfort investors.

Next week will be a busy one for analysts following the U.S. economy. There are at least nine important economic reports coming out: durable goods orders, advance goods trade balance, conference board consumer confidence, initial jobless claims, annualized GDP, personal income, spending PCE deflator, construction spending, and ISM manufacturing. We seldom, if ever, try to predict these numbers, but work very hard analyzing what they mean for the future.

Earlier, we spoke of China and how the country faces more problems than just Evergrande. They include losses in the Belt and Road program, corporate governance, new and accelerating government interference in markets, and increasing socialization of private industry.

Weekly Market Insights (cont'd)

Conclusion

We expect the United States economy to continue to grow through 2022, perhaps not as powerfully as this year, but is strong nevertheless. There are two powerful reasons for this belief—consumer strength and the recovery of supply chains. Interestingly, due to the unique way the earlier recession started, supply chains did not break down sequentially, rather almost simultaneously. It will be very interesting to follow the supply chain recovery. Many will reappear and our suspicion is that new ones will open. All are positive for the economy. This view is predicated on the assumption that there will not be further significant resurgence of COVID-19.

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