# Weekly Market Insights

**October 12, 2021**

## Equity markets rally, budget resolution kicked down the road and the possible consequences of Evergrande

### ***Equity Markets***

U.S. equity markets rallied this past week, having their best five-day stretch since June. No one should be surprised that energy stocks led the equity rally. Energy prices have been on a tear, and this has not been lost on investors. They were also encouraged by a short-term solution to the problem of the debt ceiling. Although we were glad to see some agreement, it comes under the term "faint praise." Investors will most likely have to observe another political battle at the end of the year.

The market shrugged off continued inflation and a less than stellar employment report. Evergrande appears to have receded from investors' fears for the moment, but, as we will discuss later, more is possible.

### ***The Economy***

As we wrote earlier, September's job gains were about half of consensus expectations. The U.S. economy gained 194,000 jobs, while the expected number was just under 500,000. This leads to two questions—is the economy slowing and will this alter the Fed's thinking? Yes, the economy is probably growing at a slower pace, but, as we wrote last week, that is to be expected. The U.S. economy has been growing at an unsustainable rate, so a moderation in growth should be expected. As to the second question, we do not feel this alters the Fed's view. There is another FOMC meeting November 2-3. Unfortunately, the October jobs report will not be available by then, but we should get further clarification.

The Delta variant of COVID-19 appears to be a little more in control, so that does not seem to be impacting investors at the moment.

A very important debate going on is whether there will be a vote on the infrastructure bill by itself, or be brought to a vote along with the social spending bill. Interestingly, right now the debate is intra party. The infrastructure bill by itself will pass easily. Both parties are in favor. If passed, it will significantly add to the productive power of the United States. A good friend who has spent a lot of time in Washington suggested declaring semiconductors in the national defense interest. This would allow the U.S. government to partner with private industry. It deserves a lot more thought, because it has a lot of serious implications.

### ***International Economy***

The OECD (Organisation for Economic Co-operation and Development)[1] has agreed to a global corporate tax deal. Essentially, the aim is to stop companies from moving their corporate headquarters to a different country in order to decrease their taxes. The corporate tax deal makes sense, as it is not intuitively obvious that moving from country to country or state to state exclusively for tax savings is economically beneficial. We do not see how tax havens add to productive capacity. This should be viewed as a long-term economic positive.

[1]The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 38 member countries, founded in 1961 to stimulate economic progress and world trade.

# Weekly Market Insights (cont'd)

The most alarming international story of the past week was Evergrande. It is an interesting story, not just because of a very large financial failure of a Chinese company, but how it could work its way through the system.

As many are aware, much of China's growth has been financed through real estate. Many local governments have financed themselves by real estate, selling land to developers. This has resulted in a tremendous amount of overdevelopment. The country has been left with thousands of unfinished buildings. Many of these have been sold with consumers paying full price in advance, and now have little hope of getting their property or their money back. People have used their life savings for this purchase with nothing to show for it. China may be faced with a financial crisis affecting national and local governments, businesses, and perhaps millions of ordinary citizens. If this should occur, it will have remarkably similar effects as the financial crisis of 2008 had in the United States. This is unlikely, but certainly not impossible. In any case, it will have many ramifications from government, currency, and much financial hardship. This, combined with many very expensive Belt and Road projects not paying off, must be a great concern to both China and the Communist Party.

Michael Olin Clark
Senior Advisor
moclark@1919ic.com

Ryan Schutte, CFA
Investment Associate
rschutte@1919ic.com

Abigail McKenna
Senior Portfolio Associate
amckenna@1919ic.com