Weekly Market Insights

October 25, 2021

Markets continue to advance, COVID slows, and what about Chairman Powell?

Equity Markets

United States equity markets continued to advance this past week. This marked the third straight week the Dow ended with a gain. The current rally is not restricted to U.S. stocks. The pan-continental STOXX Europe 600 rose by 0.53%. The S&P 500 ended the week up 1.64%, the Dow up 1.08%, and the NASDAQ up 1.29%.

Investors fought off concerns of rising rates and continued fears about inflation, supply chains, and China, but were likely buoyed by the apparent slowing of the spread of Delta.

The Economy

Chairman Powell was front and center of investor concerns this past week for two reasons—will the Federal Reserve change policy and raise rates and will President Biden reappoint him as Chair?

The Fed's fear about inflation is legitimate; the inflation rate has risen. Powell has told investors that the Fed is indeed concerned about elevated inflation and how long it may continue. He and many other Fed officials have indicated that it may be time to taper the bond and mortgage purchases. This makes abundant sense. There is plenty of liquidity in the system, with over two trillion dollars of non-required reserves already in the banking system. An interesting question is would this really subdue inflation? As we have written many times, both the past recession and the subsequent recovery are very different from the past. The current rise in inflation is not an overabundance of money chasing consumer goods. It is an artificial contraction of supply caused by supply chain and transportation problems. Neither problem is likely to go away with a taper. We will find out more about the Fed's intentions the first week in November.

The question of whether Mr. Powell will be reappointed is very political. The Progressive wing of the Democratic Party wants change, while the rest appear to favor Mr. Powell. The argument has been made somewhat cloudy by an unfortunate event. The media has pointed out that some high level members of the Fed have made large equity trades. This is true, and some have made a case that this is an ethical problem and use this to encourage the President to replace him. This is quite unfair. Fed officials are specifically allowed to make equity trades. All officials followed the stringent requirements and all were granted permission to make these specific trades. We believe the market will be justifiably disappointed if Chairman Powell is not reappointed.

It appears as if there is compromise building around the social infrastructure bill. If so, it should be a positive for equities.

International

Many interesting things are happening internationally. For one, there is a new regime in Germany, so that country will enter the arduous task of forming a new coalition government. Also, China's domestic economy remains roiled in debt problems, which appear to be accelerating. Next week, we will spend more time on China, the new government in Germany, and what all this means for trade and globalization.

Weekly Market Insights (cont'd)

Conclusion

We remain positive on the U.S. equity markets. There is a good chance the Fed starts to taper. No doubt, there will be a negative reaction in the equity markets, but it is likely to be short-lived, particularly if a spending bill is passed.

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