1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

November 29, 2021

A Bolt from the Blue

Financial Markets

All along, we have been writing that the one thing we are unable to predict is the path of COVID-19 and its variants. On Friday, we saw the negative market reaction after news of the Omicron variant came to light.

As all investors are aware, the equity markets had their worst day of the year this past Friday. The Dow Jones lost 905 points, the S&P 500 lost 107, while the NASDAQ lost 354. Crude oil, in particular, was hit the hardest, losing 13%. This, of course, should be no surprise given its dependence on travel and automotive use. Both gold and Treasuries did well, which should be expected since they are perceived to be safe haven assets. This revelation to the markets came at a vulnerable time. The days before and after a holiday typically have abnormally low trading volumes with many traders and portfolio managers taking time off. Buyers are not inclined to step up to the plate and take risks. This tends to accentuate market moves. It will be interesting to see how the market opens Monday when Wall Street will presumably be at full staff. In any case, traders will not likely be concentrating on economics nor earnings, but rather on the newest strain of COVID-19, about which we know very little.

Economics

Cleary, last week, economics and even politics played second fiddle to the new COVID strain, but some thoughts on the economy are important since economic progress or the reverse will be the motivating force behind long-term market moves. We wrote last week about the coming shift between monetary and fiscal policy. Nothing that occurred last week has changed that. In fact, the thesis appears to have strengthened. Chairman Powell was re-nominated, and, given the makeup of the Senate and Congress, his confirmation is almost guaranteed. Chairman Powell's hand has been significantly strengthened by President Biden's nomination of Dr. Lael Brainard to be Vice Chair of the Fed. She is a veteran of the Federal Reserve and is in agreement with Powell's policy agenda of slowing the stimulus provided by monetary policy while fiscal policy takes the reigns. It is correct that some economic indicators have slowed a bit, but that is not necessarily a sign of weakness. We have written a lot that investors should follow the path of indicators and not isolated moves.

As monetary policy retreats in importance, the policies inspired by the implementation of the Infrastructure Bill should kick in. It could and should be a significant boost to the economy. We have been a proponent of this from the beginning. Unfortunately, we have to wait to see what the actual programs are and how they will be administered.

Of course, all is not perfect. There are serious problems and mysteries to deal with. Four stand out—COVID-19, how to repair supply chains, the mystery of the shrinking employment base, and, of course, the path of China.

Weekly Market Insights (cont'd)

Conclusion

We remain positive on the U.S. economy, with the obvious caveat depending on the path of COVID. The current market decline is one of a number of dips investors may likely endure, but long-term investors should persevere. The U.S. markets appear the most resilient.

Michael Olin Clark
Senior Advisor
moclark@1919ic.com

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

Abigail McKenna
Senior Portfolio Associate
amckenna@1919ic.com