Weekly Market Insights

November 8, 2021

More records set, positive economics, and the Fed moves

Equities

United States equity markets continued on their record setting pace this past week. Markets across Europe were also quite positive, while China's well-documented troubles continue to be a concern to investors. The Dow closed the week at 36,328, up 1.42%, the S&P 500 closed at 4,698, up 2.00%, while the NASDAQ closed at 15,972, up 3.05%.

There was a lot for investors to contemplate this past week—important economic releases, a Fed meeting, the continued debate concerning spending bills, and election results. Any one of these events could have sent equites down, but, as we shall see, all were positive.

The Economy

Investors spent the week facing one piece of good news after another. Following two weeks of disappointing news, last week's economic reports were very encouraging. As our readers know, we are particularly concerned about the health of the consumer. We and investors were relieved that the two releases that concerned consumer well-being were very positive. They were job creation and unemployment. The economy created far more jobs than expected, and a positive takeaway from the report was that the private sector was the largest contributor to job growth. The reason why we view that as a positive is that it is the best indicator of a growing economy. Unemployment fell, which, of course, is good news, but this is tempered by the fact that many workers have not come back into the labor force.

Another positive, which is close to investors' hearts, is earnings. Earnings season is almost over, and the majority of companies have reported better earnings than expected.

Investors became more encouraged as the infrastructure bill became closer to a reality. The bill was ultimately passed late at night, well after markets closed for the weekend. This should be considered excellent news. Even though the infrastructure bill was passed, the social spending bill remains in doubt. Strictly from an investment view, the infrastructure bill will affect both the economy and markets much sooner. If done correctly, it has the capability to enhance the country's economic capacity, speed up economic growth, and make U.S. domestic production more competitive around the globe. There will also be hurdles to overcome. As U.S. infrastructure advances, so will the country's dependence on technology. This implies a need for a very different workforce. As we have written, this is an opportunity for businesses to substitute capital for labor. This is manageable, but both the private and public sectors must work together to smooth out the adjustment process.

The final encouraging piece of information from last week was the Federal Reserve's decision to begin to taper, or slow the monthly purchases of bonds and mortgage-backed securities. There is plenty of liquidity in the system. Bank non-required reserves remain very high, and the economy is growing, so the Fed can begin ending these purchases.

Weekly Market Insights (cont'd)

Conclusion

Both the economy and equity markets appear to be in fine shape. It has always been our opinion that a growing economy is a powerful force and leads to a rising equity market. It should be clear to readers that we believe the U.S. economy is still in the recovery phase and has room to grow. Increasing growth across Europe should also be a positive for the U.S. Are there dangers to U.S. and global growth? Certainly. A strong relapse of COVID-19 is still possible and very difficult to predict. Both economic problems and escalating political aggressiveness in China remain a problem. At this time, the positives outweigh the negatives.

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