Weekly Market Insights

December 20, 2021

Confusion Reigns.

Financial Markets

Equity markets suffered a difficult week. There were a number of reasons, but confusion amongst investors was the main cause. This past week the Dow lost 1.68%, the S&P 500 lost 1.94%, while the NASDAQ lost 2.95%.

The confusion was centered on two questions—are central banks in error by signaling an end to easy money, and will COVID and its many variants reverse the global economic recovery? We doubt the first and really don't know about the second. The only comment we have concerning COVID is that the newest strain spreads very rapidly and it seems to carry less of a punch. But, as we have written in the past, we have confidence in both the Fed and the European Central Bank (ECB). The leaders of both central banks, Mr. Powell and Ms. Lagarde, have demonstrated their ability to be flexible which is vital when dealing with uncertainty. Whenever there is an abundance of uncertainty investors should expect volatility.

Economics

Economic statistics remain in positive ranges. We will be doing our normal in-depth analysis in two weeks, but we haven't seen anything yet that gives us great concern that a minor tightening will lead to a policy error. If excess demand persists and supply shortages are not resolved, some believe monetary tightening could cause a recession. Looking at current demand, supply shortages, and levels of inflation one may easily argue that we are already at that point. At closer inspection, we don't believe that argument holds up. The reason is the U.S. and the world are nowhere near the limits of production. We believe the supply chain disruptions are temporary, and when these problems are solved most demand pressures will dissipate along with inflation. The obvious question, of course, is when? The answer is unknown. Our best guess is that many are likely to abate by mid-2022 but would be impacted by expanding global COVID lockdowns.

This is not the only unknown. There are many questions facing the President and Congress. As we all know, there is a significant spending bill that the President has before Congress, but recent announcements make imminent passage very unlikely. For many in Congress there are no actual deadlines, but any real deal making will probably end by mid-February at best. The reason is it will be the unofficial start of the campaign for the mid-term elections. This normally brings any legislative deal making to a halt. The members of Congress certainly know this and may rush to pass some important bills in short order, although we are skeptical.

Globally, things are a mess. Analyzing China is even more difficult than usual, as both economic and political signals are mixed. We have to wait for more evidence to know what is happening. Vladimir Putin, President of Russia, is attempting to bring Russia back on the world stage. No one knows how the tensions in Ukraine will be resolved, but it will remain unsettling for global investors.

Weekly Market Insights (cont'd)

Conclusion

We remain positive on U.S. equities with an outlook for moderately higher interest rates. Economic indicators will continue to fluctuate as supply interruptions linger, and investors' actions will continue to be impacted by COVID concerns. This is not a market for short-term trading, and investors should be patient in the face of volatility.

We will not be publishing the Weekly Market Insights next Monday and hope our readers have a very safe and happy holiday!

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