

Weekly Market Insights

September 12, 2022

Farewell to a Queen, Long Live the King!

Last week, the United Kingdom went through a remarkable sequence of events, a change in prime minister and in sovereign. We wrote last week about the new prime minister. This week, a much sadder report is the death of Queen Elizabeth II. The Queen was 96 and in failing health, but the news seemed to be a shock to the nation. The Queen was a well-loved, unifying figure and will be missed terribly. Her eldest son, formerly Prince Charles, now reigns as King Charles III. There is, of course, a lot of speculation on how he will fare, which is quite natural. He has demonstrated many traits that bode well, dignity and grace at the top. He has championed some causes that were mildly ridiculed by some, but, as time has passed, many have become more mainstream. We wish him well.

Financial Markets

Last week, equity markets reversed a three-week downtrend, rallying strongly. Investors bought into equities across the market cap spectrum.

The Dow gained 2.66%, the S&P 500 gained 3.65%, while the NASDAQ gained 4.14%.

It is difficult to divine why investors are trading the way they are. Two good views are that confusion reigns or traders are running the market. To us, the latter seems more likely.

Economics

We have written in the past how difficult it is to make sense of the economic releases. This is mainly because of two important and unusual

occurrences—the pandemic and the hostilities in the Ukraine. They interrupted the economy in mid-cycle.

If the economic indicators are hard to decipher, global monetary policy is not. The Western economies are firmly in the tightening camp. There may have been some mixed interpretations of Chairman Powell's views, but this is no longer the case. Furthermore, the European Central Bank (ECB) left no one in doubt when they raised their benchmark deposit interest rate to 75 basis points from zero. Investors may or may not like where policy is going, but they now know with more certainty.

The U.S. is now in the midst of the political season. This is always a hard time for markets. Political speeches abound and there is no shortage of hyperbole. This mid-term election is very important for the economy and, therefore, the markets. The divide between the left and right has not been this wide since the John Birch Society and Students for a Democratic Society (SDS)¹ were around. This, of course, upsets investors.

International affairs is another disturbing area. Russia has been a big concern to investors, and rightly so. The West appears to be coming to grips with Russia and Ukraine. There are certainly economic hardships, but they are not likely to create an economic collapse. This is not a comment on the terrible human suffering, only the economics.

¹The John Birch Society was a very far right organization and the SDS was a far left organization. Both had significant followings in the turbulent 1960's.

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Anyone who has read our reports is aware of our growing concern about China. Interestingly, it is not Taiwan that concerns us the most. We believe that President Xi knows this is not an ideal time to begin hostilities. What is concerning is the deteriorating economic situation, which has been going on for some time. There are many reasons for this, and we have covered this topic in the past. As economic freedoms are being taken away, China is losing the powerful momentum it has built since the fall of Mao. Anecdotal stories are not a good tool for economic analysis, but here is an amusing one. For some years now, wealthy Chinese have been collecting Rolex watches as investments. Lately, they have been liquidating them as investments because of concern for their economy. Poor economic evidence, but interesting nevertheless.

Conclusion

Our view has not changed that market volatility will continue and we believe U.S. markets are where investors should concentrate.

Political hyperbole will continue. A very early thought on elections is that they will add to the Washington stalemate.

As always, please don't hesitate to email if there are topics you would like us to cover in future papers.

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