1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

February 13, 2023

Markets Soften and Disaster Strikes the Middle East

Financial Markets

U.S. Equity markets lost ground this past week. The smallest stocks suffered the most. The Dow fell 0.17%, the S&P 500 was down 1.11%, while the NASDAQ fell 2.41%. Interestingly, they fell in reverse order of how they advanced since the start of the year.

There remains embedded in investors' psyche the fear of either a recession or a return of inflation. There also of course remains uncertainty about Ukraine and China. This appears to be an ideal climate for traders to of take advantage of market confusion, which adds to the uncertainty.

We don't often comment on politics unless it directly affects the economy or markets, but, happily, at least for the time being, political rhetoric has calmed a bit. We will address more on this later.

And, while the terrible tragedy of the devastating earthquake may not directly affect financial markets, it creates a somber mood..

Economy

We wrote earlier that investors were not inundated with politics this past week. There are some reasons for this. The President spoke and the Republicans answered. There was nothing overly dramatic. Both sides decried the large and growing budget deficit and felt they knew how to combat it. Both sides of the aisle realize that higher taxes or a reduction in Social Security and automatic stabilizers are obvious ways to reduce the deficit. Neither party wants to be associated with these remedies.

Economic indicators remain mixed, which shouldn't surprise investors. These economic signals are seldom unambiguous until a recession is upon us.

It appears that there is a lack of unanimity in the Fed thinking about monetary policy. In any case, the likelihood is that there will be no changes in direction for the next few meetings.

We have written in past papers that this particular economic cycle may be quite different than the typical one. It may be prolonged, but shallow. Writing for *Bloomberg Businessweek*, Rich Miller reports that the economy is going through a series of small recessions or a rolling recession across sectors. This view fits in nicely with what we have been arguing for. Clearly, housing is, and has been for a while, in recession mode due to limited supply and rising mortgage rates. New housing starts fell for the first time since 2009. Many feel the next in line may be manufacturing. If this does turn out to be the case, it will be a bit more like the soft patch the economy went through in 2016. If this is correct, investors should look for a weakening jobs market, which is when investors look for the economy to start to turn.

Of course this is clearly not cast in stone. There are many other possible outcomes. Former Federal Reserve Chair Ben Bernanke points out that credit and housing bubbles are associated with steep recessions. We, with the height of arrogance, agree. We will be following both markets very carefully.

Conclusion

Clearly, the economy and financial markets are in a state of transition. Cash alternatives yielding upwards of 3.5% allow investors some comfort in holding cash, while awaiting firmer indication of the market's direction.

Please note, we will not be publishing for the next few weeks and will return on March 6.

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