

Weekly Market Insights

April 3, 2023

The Nexus of Politics and Economics

Financial Markets

It was a good week, month, and quarter for financial markets, as investors appeared to shrug off all of the unpleasant news that came their way. Major headlines have been both economic and political—a former president was indicted, bank failures caused a scare, and the Fed raised interest rates yet again.

The Dow gained 3.22% for the week, 1.89% for the month, and 0.93% for the quarter. The S&P 500 gained 3.48% for the week, 3.67% for the month, and 7.50% for the quarter. The NASDAQ gained 3.37% for the week, 6.69% for the month, and 16.77% for the quarter. It is very difficult to point to one specific reason, but it appears that investors have a bullish bias.

The Economy

The United States economy has a series of problems that must be dealt with in both the short and long terms. At the top of the list are bank failures, inflation, the debt ceiling, an excessive budget deficit, and political turmoil. Expanding the scope globally, challenges include re-engineering supply chains, shifting trade blocks, and finding a resolution to the war in Ukraine. None of these problems are unsolvable, but they are complicated by extreme domestic political discord.

Two of the most pressing problems for the economy, the growing budget deficit and looming debt ceiling deadline, are the most affected by domestic political infighting. We have been hearing about both of these issues for some time. Eventually, politicians will come to a resolution on the latter. It is non-negotiable.

Ultimately, we must pay the bill. It is just a matter of when and how close to the edge Congress is willing to go. The budget is an altogether different creature. It will be a hard-fought battleground for ideas. The real battle will, most likely, revolve around the large and growing government debt burden. Should we raise taxes, cut spending, or both, and should the ongoing fight against inflation be considered or not? Most economists and government finance scholars argue that we should beat inflation first. It is the most immediate impediment to a strong and growing economy. Then, once inflation is under control, go after the deficit. We will have a lot more to say about the deficit when the debate picks up in Congress.

A lot of what we mentioned earlier will be part and parcel of the budget debate. Globally, the United States must remain committed to an end goal of free and open trade, but also work to stay involved with regional trade groups. This of course sounds, and is, contradictory, but, in the real world, the path to a goal is often confusing.

Conclusion

As we wrote in the opening, investors appear to want to be positive. With several ongoing issues, domestically and abroad, there have been many opportunities for the markets to swoon, but they have been resilient. Some issues like the banking crisis and inflation are being worked on in the public eye, while others remain obscure. We are now in the silly season of political bravado, so we expect the rush of news stories to continue.

Michael Olin Clark
Senior Advisor
moclark@1919ic.com

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

Abigail McKenna
Portfolio Administrator
amckenna@1919ic.com

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