19/19 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

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Good News, Perhaps

Financial Markets

Many investors will have read this weekend that the S&P 500 has entered a new bull market, as defined by a 20% recovery from its market low on October 14th of last year. Perhaps this signals an end to some of the bizarre market behavior we have experienced, but we remind our readers it is always wise to be skeptical. This recovery has been led by a handful of large technology stocks. Some have been boosted by investor enthusiasm over artificial intelligence. A broader measure of market returns, the equal-weighted S&P 500, is up 14% from its low on September 30th and is up just 3.3% year-to-date vs. 12.8% for the cap-weighted index.

All three major equity markets gained ground this past week. The Dow gained 0.34%, the S&P 500 gained 0.39%, and the NASDAQ gained 0.14%—remarkably clustered. While no index experienced an astonishing weekly gain, technical analysts tell us it officially pushed the S&P 500 out of bear market territory. Stocks across the cap spectrum have gained ground, albeit at different magnitudes, the debt ceiling was raised, and there are seemingly no great domestic battles in the near future. Why shouldn't investors be happy? Why be skeptical? We have written in the past that financial markets reflect wide-ranging fears and optimisms of investors, whether they be economic, domestic, foreign or global. Our point being, there is still a lot going on, so investors should not get carried away with optimism.

Economics

As we alluded to last week, we will spend some time this week on international topics. Globalism is not in retreat but is facing some backlash. Surprisingly, this happens with some frequency. Much of social behavior appears to occur in cycles. Unfortunately, many of these cycles consist of even smaller sub-cycles that can be hard to identify while they are occurring. This, of course, makes it difficult to forecast. All we know now is that things have happened to take the trajectory of globalization cycle off-path. History tells us this is temporary.

Current disruptions to globalization are evident with the recent attempts from emerging countries to create regional trading blocks and establish trade restrictions in an apparent return to Industrial Policy. This diverges from the economic behavior that has dominated since the mid-1980's, dubbed the Washington Consensus by John Williamson of the Peterson Institute. The economically developed world is strong enough to withstand these challenges, but we have a greater concern for emerging countries. We wrote earlier about those countries moving back to a form of Industrial Policy, defined as a country prioritizing a national industry and protecting it. In the past, this practice has led to the uneconomic use of funds, and those countries suffered. Parts of the world appear to have forgotten the deep downsides to these policies.

Why has globalism been losing favor? Public health and security head the list. The pandemic wreaked havoc with supply chains and transportation, and Russia's invasion of Ukraine exacerbated those issues and created new ones related to the supply of oil, gas, and grain. China's move to a great international trading power and choosing to ignore the commonly accepted WTO rules did not help. It is a fascinating coincidence this is all happening on the 300th birthday of Adam Smith (6 June, 1723), the first and most important flag carrier for free and open trade. If all of the above appears frightening, take solace in knowing that counters to globalism have occurred several times in the past.

Conclusion

The United States economy remains the strongest relative to the rest of the world. The EU is behind in their economic recovery, and China continues to struggle both internally and externally with serious debt problems. Although no one knows with certainty what the Federal Reserve will do when they convene for their two-day meeting on Tuesday, holding rates steady for the time being appears to be the most likely path. The emphasis on skepticism in today's letter is not intended to frighten investors and steer them away from the markets. We merely want to point out that the economic world is in flux at the moment and encourage everyone to take what they read with a grain of salt.

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