1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

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Five Weeks of Market Gains

Financial Markets

Friday's close marked the fifth consecutive week of gains for the S&P 500 and NASDAQ indices and the third straight for the Dow. The Dow rose 1.25%, the S&P 500 rose 2.58%, and the NASDAQ rose 3.25%. All in all, it was an excellent week for the equity markets. The Technology sector led the pack gaining 4.45% followed by Materials which gained 3.36%. It appears market participants were not put off by the somewhat confusing presentation by Federal Reserve Chairman Powell at last week's Fed meeting, but we will have more to say about that in the economics section. The sector leadership was interesting with the Technology and Materials sectors in some ways representing the Alpha and Omega of the market. Given the recent excitement over AI technology, we are not surprised to see investors' embrace of technology stocks.

Economics

We wrote earlier about Chairman Powell's speech and the Federal Reserve's policy action this past week. In particular, we want to focus on the Fed's "forward guidance"—a tool the Federal Reserve uses to provide communication to the public about the likely future course of monetary policy. Ironically, recent efforts to provide more clarity may have actually caused more confusion. Investors must remember that forward guidance is not meant to be perceived with certainty. Rather, it is an "all things being equal" or "holding other factors constant" statement. The Fed knows many things but not the future.

We have written quite a bit about the international economy. Last week, we focused on our concerns over emerging market countries and their apparent desire to revert back to Industrial Policy. This week we will shift our focus to two of the largest and most important emerging competitors—China and India. Competition is not a bad thing. On the contrary, it can be a positive for all involved. While some think competition contradicts Adam Smith's and David Ricardo's arguments for comparative advantage, we believe they actually reinforce them. Hard fought competition benefits all, but the underprivileged may see the most upside because of the resulting lower prices. The United States should welcome this competition, albeit fair competition.

In a little less than 70 years, China has grown from a very poor country into a fierce competitor. This remarkable growth occurred during a period where the country embraced a Chinese form of capitalism. China's economic policy has since changed, and they are now showing signs of moving back to strict Maoist government control of the economy. This shift may be a likely contributor to China's slowing growth. A large part of China's earlier dramatic growth came from the real estate sector which has now fallen into a slump. China has entered into an ill-fated and politically motivated program known as the Belt and Road Initiative. The objective was loosely a recreation of the ancient Silk Road with China as the leader. China aggressively lent money to poor and developing countries. Many, perhaps even a majority of these countries are in default and the loans under reorganization. China's economy has some difficult problems but remains a very formidable competitor.

India has just surpassed China as the world's most populous country but remains a country of contradictions. It has a highly educated population, a good resource base, and a reasonably stable government. It also has what may be the most complex bureaucracy, bitter religious conflict, a dying but still present caste system, and great poverty alongside great wealth.

China and the United States are bitter rivals, both politically and economically, but this should not stop efforts to work together. Cooperation will be very difficult but well worth it. India has the potential to be a great ally as well. Its growth potential is enormous, and the country would serve as an anchor in Asia for the United States.

Conclusion

The United States economy appears to be in reasonable shape, and investors and analysts will continue to look to the Federal Reserve for guidance about interest rates. U.S. equity markets have performed well, but we caution against being too aggressive.

It should be clear from our remarks that retreating from global leadership is not a good idea. Instead, we believe that the United States embracing a reasoned approach to global leadership is a positive and will be welcomed by almost all. The caveat is there are a small number of countries that want to remain nonaligned, and there may be very good reasons for this stance. A fitting example is Vietnam, a small country on the Chinese border. Given their geographical location and heavy involvement in global trade, it is understandable that they may want to remain nonaligned. That wish should be respected.

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