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In this week's recap: Good indicators for earnings season and other economic data lead to record highs for stocks.

Weekly Economic Update

Presented by Ed Papier, April 19, 2021

THE WEEK ON WALL STREET

Stocks reached record highs last week, riding the tailwind of improving economic data and a strong start to the earnings season.

The Dow Jones Industrial Average rose 1.18%, while the Standard & Poor's 500 gained 1.37%. The Nasdaq Composite index added 1.09%. The MSCI EAFE index, which tracks developed overseas stock markets, climbed 1.00%.^{1,2,3}

EARNINGS, ECONOMIC DATA

Stocks rallied early in the week on strong retail sales, a sharp drop in initial jobless claims, and a retreat in bond yields. Stocks then climbed to fresh record highs on Thursday, with the Dow Jones Industrial Average rising above 34,000 for the first time and the S&P 500 approaching 4,200.⁴

The market overcame some initial jitters arising from health authorities recommending a pause on a COVID-19 vaccine. Stocks also looked past an increase in the Consumer Price Index and a Federal Reserve report that indicated businesses were raising prices.

A surge in housing starts helped the rally, with stock prices moving higher to close out the week.

THE ECONOMIC PULSE

Last week provided insight into the economic recovery, and the numbers vindicated the optimism that has driven markets higher.

An acceleration in inflation was expected, but came in at a rate (+2.6%) that didn't appear to rattle the markets. It was, however, retail sales (an increase of 9.8%), new jobless claims (576,000--the lowest level since March 14, 2020), continuing unemployment claims (the lowest four-week moving average since March 28, 2020), and housing starts (+19.4%) that emboldened investors.^{5,6,7,8,9}

Confirmation of this recovery came with the start of the new earnings season, which kicked off with strong earnings that, in some cases, exceeded Wall Street consensus expectations.

THE WEEK AHEAD: KEY ECONOMIC DATA

Thursday: Jobless Claims. Existing Home Sales. Index of Leading Economic Indicators.

Friday: New Home Sales. Purchasing Managers Index (PMI) Composite Flash.

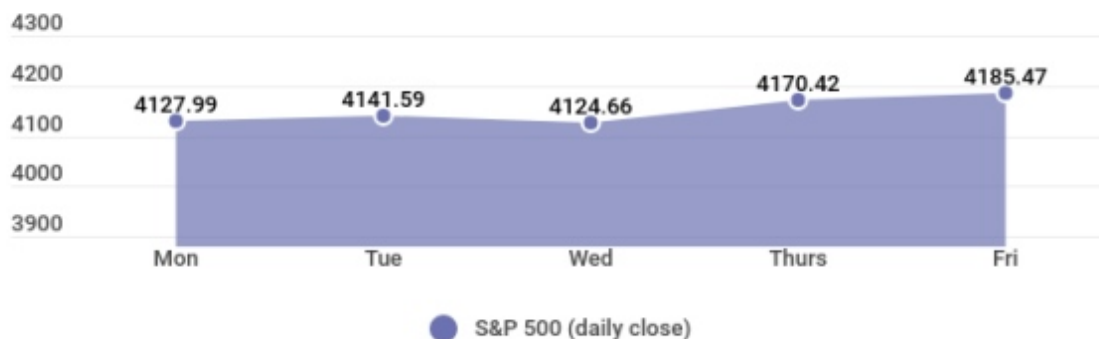
QUOTE OF THE WEEK



"Paper money will revert to its intrinsic value of zero over time."

VOLTAIRE, 1729

Market Index	Close	Week	Y-T-D
DJIA	34,200.67	+1.18%	+11.74%
NASDAQ	14,052.34	+1.09%	+9.03%
MSCI-EAFE	2,285.01	+1.00%	+6.40%
S&P 500	4,185.47	+1.37%	+11.43%



	Treasury	Close	Week	Y-T-D
10-Year Note		1.59%	-0.08%	-0.66%

Sources: The Wall Street Journal, April 16, 2021; Treasury.gov, April 16, 2021

Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, April 9, to Friday, April 16, close. Weekly performance for the MSCI-EAFE is measured from Friday, April 9, open to Thursday, April 15, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

The US economy's K-shaped recovery is underway. Those with stable full-time jobs, benefits, and a financial cushion are faring well as stock markets climb to new highs. Those who are unemployed or partially employed in low-value-added blue-collar and service jobs – the new "precariat" – are saddled with debt, have little financial wealth, and face diminishing economic prospects.

These trends indicate a growing disconnect between Wall Street and Main Street. The new stock-market highs mean nothing to most people. The bottom 50% of the wealth distribution holds just 0.7% of total equity-market assets, whereas the top 10% commands 87.2%, and the top 1% holds 51.8%. The 50 richest people have as much wealth as the 165 million people at the bottom.

Rising inequality has followed the ascent of Big Tech. As many as three retail jobs are lost for every job that Amazon creates, and similar dynamics hold true in other sectors dominated by tech giants. But today's social and economic stresses are not new. For decades, strapped workers have not been able to keep up with the Joneses, owing to the stagnation of real (inflation-adjusted) median income alongside rising costs of living and spending demands.

For decades, the "solution" to this problem was to "democratize" finance so that poor and struggling households could borrow more to buy homes they couldn't afford, and then use those homes as ATM machines. This expansion of consumer credit – mortgages and other debt – resulted in a bubble that ended with the 2008 financial crisis, when millions lost their jobs, homes, and savings.

Now, the same millennials who experienced these losses a decade ago are being duped again. Workers who rely on gig, part-time, or freelance "employment" are being offered a new rope with which to hang themselves in the name of "financial democratization." Millions have opened accounts on Robinhood and other investment apps, where they can leverage their scant savings and incomes several times over to speculate on worthless stocks.

The recent GameStop narrative, featuring a united front of heroic small day traders fighting evil short-selling hedge funds, masks the ugly reality that a cohort of hopeless, jobless, skill-less, debt-burdened individuals is being exploited once again. Many have been convinced that financial success lies not in good jobs, hard work, and patient saving and investment, but in get-rich-quick-schemes and wagers on inherently worthless assets like cryptocurrencies.

Make no mistake: The populist meme in which an army of millennial Davids takes down a Wall Street Goliath is merely serving another scheme to fleece clueless amateur investors. As in 2008, the inevitable result will be another asset bubble. The difference is that this time, recklessly populist members of Congress have taken to inveighing against financial intermediaries for not permitting the vulnerable to leverage themselves even more.

Making matters worse, markets are starting to worry about the massive experiment in budget-deficit monetization being carried out by the US Federal Reserve and Department of the Treasury through quantitative easing (a form of Modern Monetary Theory or "helicopter money"). A growing chorus of critics warns that this approach could overheat the economy, forcing the Fed to hike interest rates sooner than expected. Nominal and real bond yields are already rising, and this will inevitably eventually shake risky assets like equities. Owing to these concerns about a Fed-led taper tantrum, a recovery that was supposed to be good for markets may now give way to a market correction.

Meanwhile, congressional Democrats are moving ahead with a \$1.9 trillion rescue package that will include additional direct support to households. But with millions already in arrears on rent and utilities payments or in moratoria on their mortgages, credit cards, and other loans, a significant share of these disbursements will go toward debt repayment and saving, with only around one-third of the stimulus likely to be translated into actual spending.

The effects of monetized fiscal deficits combined with negative supply shocks is beginning to cause inflation to emerge. The risk of such shocks has risen as a result of the new Sino-American cold war, which threatens to trigger a process of deglobalization and economic balkanization as countries pursue renewed protectionism and the re-shoring of investments and manufacturing operations. But this is a story for the medium term, not for 2021.¹⁰

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CITATIONS:

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