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In this week's recap: Markets weigh a menu of uncertainty.

Weekly Economic Update

Presented by Ed Papier, April 4, 2022

THE WEEK ON WALL STREET

Stocks spent last week digesting the sharp gains of previous weeks as investors assessed a tightening yield curve, the war in Ukraine, and an uncertain outlook for economic growth and inflation.

The Dow Jones Industrial Average slipped 0.12%, while the Standard & Poor's 500 was flat (+0.06%). The Nasdaq Composite index led, picking up 0.65% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, rose 1.02%. [1,2,3]

STOCKS PAUSE

Stock prices bounced around following strong gains in two previous weeks as money managers appeared to reposition their portfolios ahead of the first-quarter close. Oil was under pressure all week as prices fell on news that Shanghai imposed a strict lockdown due to COVID infections. President Biden announced a sustained release of oil from the country's strategic petroleum reserve.

Bond yields reversed their recent climb. The flattening in the yield curve triggered some concerns about economic growth and the possibility of a recession.

LABOR MARKET

With economic growth worries overhanging the market, last week's employment reports showed continued strong demand for workers. The Job Openings and Labor Turnover Survey reported the number of open positions remained near record highs, with job openings exceeding the number of available workers by a record five million. Afterward, the Automated Data Processing employment report saw private payrolls grow by 455,000 in March, slightly above consensus expectations. [4,5]

Finally, the government's monthly jobs report showed that employers added 431,000 jobs in March, lowering the unemployment rate to 3.6%. That's approaching the 50-year low of 3.5% reached in February 2020. [6]

THE WEEK AHEAD: KEY ECONOMIC DATA

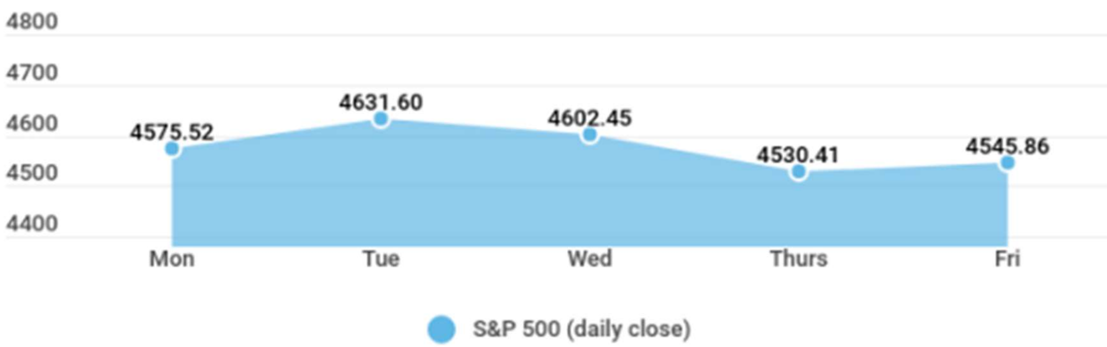
Monday: Factory Orders.
Tuesday: Institute for Supply Management (ISM) Services Index.
Wednesday: Federal Open Market Committee (FOMC) Minutes.
Thursday: Jobless Claims.

QUOTE OF THE WEEK

"I cannot teach anybody anything. I can only make them think"

SOCRATES

Market Index	Close	Week	Y-T-D
DJIA	34,818.27	-0.12%	-4.18%
NASDAQ	14,261.50	+0.65%	-8.84%
MSCI-EAFE	2,181.63	+1.02%	-6.61%
S&P 500	4,545.86	+0.06%	-4.62%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.38%	-0.10%	+0.86%

Sources: The Wall Street Journal, April 1, 2022; Treasury.gov, April 1, 2022
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, March 25, to Friday, April 1, close. Weekly performance for the MSCI-EAFE is measured from Friday, March 25, open to Thursday, March 31, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Those with the courage and conviction to execute on innovative ideas change the world. They are ridiculed at first, dismissed, sometimes persecuted. Socrates and Galileo come to mind. A few break barriers, and are afterwards celebrated, sometimes enriched. Einstein and Edison as well. Even though the rest of us operate at lower altitudes, we too are sublime enigmas, each in our own way. So, although our behaviors are nearly always predictable, they are not entirely. And that is why, when connecting millions or billions of such creatures, we can often model the near future with reasonable accuracy but must recognize that the more distant horizon is highly uncertain.

There are many investor types. At one end of the spectrum are those who identify tiny anomalies in the prices of various securities and bet they will revert to mean. Such investing requires relatively little imagination, and therefore, enormous leverage is required to generate meaningful returns. At the other extreme are early-stage venture investors who are skilled at recognizing a changing world. They themselves do not generally conceive of that different future; rather, they see it through the eyes of visionaries who do, and then provide modest sums of capital to build it. Their unlevered returns can be enormous. More artistically minded people are often drawn to this investing style.

Between those poles are countless others. Each bet on outcomes they see as probable relative to what is priced into markets. The biggest obstacle to an investor's success is in overcoming their own biases, weaknesses, shortcomings. That's no small task. The fact that most human behavior is predictable extends to our market interactions. The central tendency of most creatures is to follow - traveling in packs, herds, flocks, schools, tribes. This is why most successful investors tend to be deeply introspective. Their study of human nature helps them step outside of themselves. Iconoclasts, they learn to lean against the crowd when risks rise wildly relative to rewards, or the inverse. They jump on macro mega-trends as the world begins to change while the herd resists.

Investors tend to look at last year's market collapse as a Black Swan. But it should be viewed as the final phase in a process that started in the late 1980s. An epic earthquake, decades in making. By early 2020, it was evident that monetary easing combined with central bank bond buying was no longer sufficient to spur the real economy on its own. To be sure, rate cuts and quantitative easing could lift asset prices if applied aggressively, but this in turn amplified inequality which contributed to the underlying conditions that afflicted the real economy. The Fed itself was crying out for politicians to engage in aggressive fiscal expansion.

The central bank's well intended efforts to meet its dual mandate meant it did whatever was necessary to support stable prices and maximum sustainable employment. This effort had the unintended consequence of relieving politicians of making hard policy choices. The Fed stood ready to offset any and every economic interruption, leaving politicians under little pressure to act in the long-term best interest of the nation. With de minimis political costs of inaction, very little good happened. Special interests feasted. Leadership withered. The body politic followed, frayed.

The problem was not confined to the United States. It had become a global phenomenon. Decades of U.S. dollar dominance as the global reserve currency forced every developed nation to adopt the Fed's general approach to monetary policy. Failure to do so resulted in currency appreciation, which in turn hurt international trade. In a world fixated on ever-expanding globalization, such a consequence was universally viewed as unacceptable. So, over the decades, global monetary policy converged with Fed policy.

The world thereby entered 2020 with a level of global policy homogeneity unlike any previously experienced. That policy no longer worked. The pandemic provided the most potent catalyst imaginable to catapult developed economies into an entirely new policy paradigm. Had it not been COVID-19, it would surely have been something else. The pandemic allowed even the most dysfunctional global governments and warring political tribes to coalesce around a common economic policy at a scale that will change how the world operates for decades.

By requiring governments to borrow and spend previously unimaginable sums to offset the economic depressionary forces, the pandemic restored politicians to power. Central banks played their part, accommodating the unprecedented borrowing. But it is not central bankers who spend money. It is elected politicians. And after decades of increasing political dysfunction, a wide range of societal, infrastructure, environmental and geopolitical problems had grown to the point that nearly everyone recognizes them as such, even as they may have disagreed about how to address them.

The most important thing to internalize when constructing portfolios for the coming years is that we have entered the most uncertain period of our lifetimes. It is even possible we are at the dawn of the period of greatest change for the past few centuries. This change is almost inconceivable, considering the bruising pace of transformation we are living through now. Our natural inclination, our human bias, is to deny this possibility. But as investors, it is our job to step outside ourselves and survey the landscape objectively . A fair accounting of the range of potential outcomes when looking out over the coming decade or two spans from dystopia to Renaissance. It would be unsurprising, with so much uncertainty, for sentiment to swing from expectations for one such extreme toward the other, multiple times.

Given the change ahead, and the reluctance of people to accept it, let alone recognize it , one should expect large moves in prices. Such an environment will reward the artistically minded, the venture investors, and those prepared to break with what is now seen, after decades of growing policy homogeneity, as investing orthodoxy.

We are at a truly unique moment in human history, headed as always, into the unknown but with an unusually wide range of possible outcomes. This is a time of existential risk for those unwilling to adapt, and a time of extraordinary opportunity for those of us prepared to embrace quantum change. In periods of such profound transition, it is the case that the investment strategies that profited most handsomely in the old regime, suffer in the new. And as with all natural phenomena, those that struggled, have their day in the sun. [7]

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Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:
1. The Wall Street Journal, April 1, 2022
2. The Wall Street Journal, April 1, 2022
3. The Wall Street Journal, April 1, 2022
4. CNBC, March 29, 2022
5. CNBC, March 30, 2022
6. The Wall Street Journal, April 1, 2022
7. zerohedge.com/markets/hedge-fund-cio-case-quantum-change