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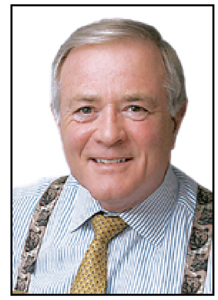

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OP-ED: U.S. economy suffers record downturn; Nasdaq hits all-time high

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The U.S. economy contracted at a record rate last quarter. A slowing job market became another sign of a slowing economy. A summer surge in virus infections added to worries.

The Commerce Department said that the U.S. gross domestic product declined at a seasonally and inflation-adjusted 32.9 percent annual rate. It was the steepest drop in 70 years of record-keeping. The U.S. economy is driven by consumer spending, which represents about 70 percent of the U.S. economy. But if one can’t go to a restaurant or the hair salon, spending will decline. Spending on nondurable goods such as clothing and groceries fell by 15.95 percent. At the same time, spending on durable goods fell only by 1.4 percent. Plenty of stimulus money was not spent. The personal savings rate swelled, as worries over the virus and the economy caused people to retain cash.

The unemployment rate increased, with the number of people receiving unemployment benefits rising to 17 million in the week ending July 18.

While the economy slowed, the tech-heavy U.S. Nasdaq stock market traded at its highs, owing to stimulus from the government and the increase in money supply from the Federal Reserve. Without the stimulus, the economic decline would have been worse. However, some of the stimulus is running out.

Because of job losses, housing will become an issue as people are no longer able to afford their rent or mortgages. Commercial and retail real estate, which historically provided reliable cash flow and income, is also under pressure due to the bankruptcies of many well-known companies and the reconfiguration of how and where people work.

The time of late August and early September normally brings optimism as young people return for another year of learning. This year, however, in addition to concern about costs of school supplies, there is a question of whether many districts will even be able to open schools. Even if the schools open, will it be safe to send the children? If the schools do not open, where will the parents – including many single people – send their children? Are there sufficient child care options and other resources to accommodate remote learning?

The upcoming election adds uncertainty to the markets, and markets do not like uncertainty. Continuity and incumbency should give President Trump an advantage, but can he successfully run on a record of declining economic growth and growing unemployment?

Between now and the election, we can expect the current government to do everything it can to buoy the economy. The chairman of the Federal Reserve has said as much, with his "whatever it takes" pledge. Congress and the White House are busy pouring money into the economy through stimulus checks and government spending. Will it be enough to re-elect President Trump? History says no.

It is hard to predict what a change in the White House would mean for the market. But the likely scenario is stimulus up to the date of the election, resulting in a lift to the market – but then a letdown after the election because the market does not like uncertainty, and a change in the White House will likely bring a change in policy. The stock market typically looks forward three to six months and presumably is anticipating the various scenarios.

The dollar is weakening. The U.S. dollar index has slipped nearly 7 percent in the last three-month period. In fact, the index that measures the dollar against six other major currencies is down nearly 9 percent from its March highs and is on track for its worst month since 2011. This is a good news-bad news scenario. It is good news because U.S. goods and services will be cheaper in the international market; therefore, export sales may increase. It is bad news because it reflects a lack of confidence in the dollar as we run up huge deficits. The U.S. dollar is the world's reserve currency because of confidence in the U.S. and its rule of law. Unfortunately, we are now getting failing grades among our allies, which results in less confidence in the U.S. currency.

The weak dollar also suggests inflation. Indeed, Jay Powell, chairman of the Federal Reserve, has said as much, indicating that the Fed will allow more inflation. He says that deflation is the greater worry now. A little inflation is OK; too much is not good. Getting it right is tricky, but essential. The cure is less debt and a more stable government. Right now we are running the printing presses and cheapening the dollar with the hope that we can pay our bills with cheaper money. Inflation robs savers, over time, with declining value of their money. Investors need to factor more inflation into their investment plans.

The virus is driving policy and the markets. The government policy toward the virus had been ambiguous and uncertain. It will take a focused policy to win this war. In the meantime, investors should adopt a long-term investment strategy. Focus on the future, however uncertain.

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