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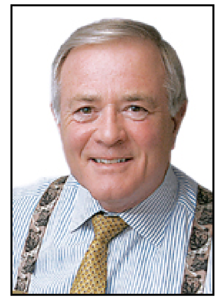

William Rutherford

OP-ED: Whistling through the graveyard

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The U.S. stock market bursts out to new highs. Big tech profits surge. Recent news gives reason for optimism … or does it?

Much of the current growth in the economy is based on various stimulus programs sponsored by the federal government. More than five trillion dollars have been poured into the economy, with perhaps more to come; in dollar terms, this equates to about 25 percent of the annual U.S. gross domestic product (GDP). No wonder the economy is steaming.

The forecast was for the GDP to rise 8 percent in the most recent quarter, but it managed to increase only 5 percent. Is the economy slowing down? Well, it has been growing at the fastest pace since 1983. Consequently, the Fed says the drop in GDP growth rate is nothing to worry about. The Federal Reserve's view is that the reopening of the economy after the virus surge has been stronger than expected and caused bottlenecks in distribution. When that sorts itself out, things will get back to normal. Is this just whistling through the graveyard?

Inflation appears to be surging, but again the Fed posits that this is transitory and linked to reopening and related supply and distribution issues.

China is restraining segments of its economy, which appears to be having negative ramifications for China and the U.S. It started with censorship of children's textbooks and spread to its large technology companies and related U.S. IPOs. The Chinese government says "it is helping these companies to grow properly." (This reminds us of the most feared words in the English language: "I'm from the government, and I am here to help you.") The microchip shortages resulting from these new policies are slowing the U.S. and global economies, affecting production of new cars, cellphones, aircraft, appliances and so on.

Rising cases of new virus strains also cause worries. Nevertheless, Fed Chairman Jerome Powell says we have experienced waves of the virus over the past two years, and this time there should be less in the way of economic implications.

And so it goes …

The Federal Reserve is sticking with easy money policies. The stock market is pricing in the first Fed rate hike to be in 2023, according to the Chicago Mercantile Exchange's FedWatch and the Reuters news service. Congress and the executive branch are working toward following up the recent five trillion dollars in government spending with more in the form of a trillion-dollar-plus infrastructure bill. Both of these monetary and fiscal policies are bullish for the economy and the U.S. stock markets.

What should an investor do? Clearly we are in for a bumpy ride, but the Fed indicates that it is truly here to help us. Remember: "Don't fight the Fed" and the power of the government purse.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.