

The Year-End Stock Market Rally

November 22, 2021

Just a few statistics to support our contention that 2022 will be another good year for stocks with some usual bumps along the way:

1. The U.S. dollar has been hitting highs versus other major currencies such as the Euro and the Yen. A strong dollar is good for inflation but penalizes the bottom line of international companies.
2. The price for a barrel of oil reached a high of \$85 a few weeks ago but has since fallen to the \$75 level. We expect to see a decline in gasoline prices as a result which means that lower inflation cannot be far behind.
3. The major stock market indices are at or near record highs. Usually, such strength is an indicator of a sounder economy in the coming months.
4. The U.S. is NOT engaged in any major conflict of war, a unique experience that lowers our need for massive increases in defense spending and loss of human life.
5. The President confirmed Jerome Powell for a second term as head of the Federal Reserve. His reappointment for eight years is an endorsement of the monetary policies of the Federal Reserve that have been extremely supportive of a growing economy.
6. Fiscal policy remains expansionary with the passage of a \$1.2 trillion infrastructure bill. In addition, Congress is considering another increase in spending on the order of \$2 trillion.
7. Corporate profits are at record levels as are corporate liquid assets. Expectations for corporate profit growth next year continue to rise.
8. Interest rates remain near record low levels with the ten-year government bond close to 1.6%, a level that suggests there is broad support of U.S. economic policy.
9. Typically, investors look at the price of gold as an indicator of inflationary pressures. This year, an investment in gold would have lost them money.
10. If bitcoin and other “cryptocurrencies” continue to exist and are priced in dollars, then they are just another asset class.
11. As with the rejection of Supply-side economics by the professionals in the 1980s as “Voodoo”, so also is the rejection of Modern Monetary Theory in the 2020s.
12. Tax proposals pending in Congress do not appear to be as threatening as a wealth tax or a tax on unrealized capital gains. Recent federal income tax collections are rising at an 18% rate. State and local real estate taxes are surging due to the boom in housing.

This year we have a lot more to be grateful for!

Happy Thanksgiving!!