MAIN ST. AND WALL ST. DIVERGE

Many perplexed paragraphs have been written over the years when a disconnect occurs between a current economic reality and the actions of financial markets. Last week was a good example as illustrated by a few of the weekend press headlines:

- Hiring cools as infections sap the US recovery
- Air of uncertainty clouds post Brexit talks
- Can the UK high street survive the retail crisis after two of the UK's biggest retailers, Debenhams and Arcadia, file for bankruptcy?
- Winter presents perfect conditions for virus spread
- California reports 30,000 daily cases and the Governor puts the 33 million population into lock-down
- Job growth (in Canada) beats expectations, but December may see a decline

Dismal stuff. Even the approval of Covid-19 vaccines was met by a barrage of negative articles, such as the "impossible" task of orchestrating distribution, efficiently providing the critical second dose, not enough supply and so on.

And the financial markets? As they have done since March, shrugged it all off and, for the most part, showed good weekly gains.

The three major US stock market indexes closed at all-time highs; however the biggest winner of the three, the NASDAQ up 2.2%, was eclipsed by London's FTSE-100 gaining almost 3%. So much for the UK's post Brexit worries or retail sector woes. Of note was that commodities were the standout winners with the S&P Energy sector leading the pack, up 4.73%. Investors were encouraged after **OPEC+** reached an agreement for small production hikes starting in January, versus a potential worrying free-for-all if their week long talks broke down. Copper and Gold also had a strong week, with gains over 3%.

Also notable last week was the continuing fall of the US dollar while their long-term interest rates continue to rise. The 10-year US treasury bond now yields fractionally under 1%. While still obviously low, that is almost double from a few months back. I have warned before of consumer inflation coming back sooner than economists expect.

Why you may ask why is there this often and reoccurring disconnect? The answer is complex and ever changing. The usual trite one is it that financial markets look ahead. The main reasons are that there are many "good things" on the horizon. A few examples:

- Vaccines are coming and, just as development beat predictions by years, I predict the implementation will go much faster than pundits gloomily expect
- Global exports and imports, while below previous highs, are moving steadily higher
- A looming US Government stimulus package, while at the same time <u>US corporations are sitting on a record horde of cash, some 2.1 trillion dollars</u>
- And in Canada, our government has come to the rescue. According to *The Globe and Mail,* household income barely dropped between the first quarter of 2020 and third quarter, falling by just 1%. But government transfers, including existing programs plus new coronavirus-era programs, made up for that drop many times over**.** <u>Those transfers rose by $103.8-billion from the first quarter to the third quarter, meaning that the government effectively gave households nearly $7 for each dollar of lost private-sector income. *With more to come !!*</u>

Bottom line: it is impossible to find a simple correlation or easy answer to the connection between financial markets and the economic world. That is why, unlike many in the financial media, who are always trying to tell the markets what they believe it should be doing, I prefer to try and "listen" to what the market action is telling me, and at the present time the answer seems to be higher!!