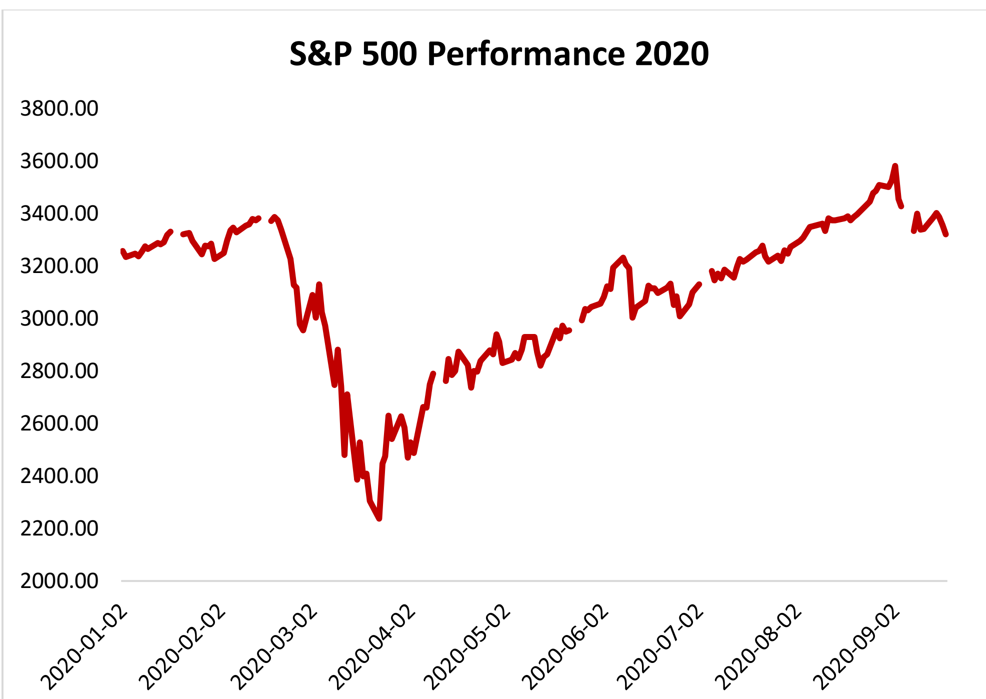
RAMBLER INVESTMENT FUND

The Growing Disconnect between the Stock Market and the Economy

By Michael Magnani

For a longtime now, there has been this prevailing idea that the stock market and the economy are thoroughly intertwined. We see huge economic events such as the Great Depression being caused by a crash in the stock market. The stock market, namely the S&P 500, has historically been doing well during times of economic growth and expansion and poorly during times of downturn and recession. But this pandemic has been different. In my eyes, this pandemic has accelerated the growing disconnect we see between the overall economy and the stock market. This is also just a fraction of a bigger argument that can be made about the increasingly frightening levels of inequality we have seen in our country recently.

If you were to look right when COVID-19 hit and what the stock market did following all the news of lockdowns and stay at home orders, you'd see what you probably would expect to see when an entire economy was shutdown. The stock market tanked. At its lowest point on March 23 of this year, the S&P 500 was over 1,000 points lower than its peak just a few weeks before. But what happens next? As you can see with the graph below, the S&P generally follows an upward trend, eventually reaching pre-peak levels (only within the last few weeks as I am writing this has it dipped back below these levels). If you were watching CNBC during the summer months, it felt like every day we were seeing new daily record highs for the market. During these record highs though, we were continuing to see record numbers of weekly claims for unemployment insurance, as well as unemployment numbers hovering around 10%, give or take depending on the month. So, what explains this?




*St. Louis Federal Reserve; S&P 500*

According to a Gallup poll, the percentage of Americans who actually own any stocks, be it through individual brokerage accounts, retirement funds/401ks, or mutual funds, has been falling for some time now. Gallup states that that number is currently around 55%, significantly lower than the 67% of Americans who owned securities in some form in 2002. But that alone doesn't explain the entire picture. Simply looking at the percentage of Americans who own securities in one form or another doesn't tell us exactly why the stock market has done so well during such a grim period for the economy. This can be explained by the widening inequality we are continuing to see. In 2009, the wealthiest 10% of Americans owned 82.4% of outstanding shares. That number now currently sits at a staggering 87% according to the Wall Street Journal.

If you are the wealthiest 10% of Americans, or even 1% of Americans, you were most likely not affected by the economic crisis that stemmed from the pandemic as much as the other 90%. Most of these people probably kept their jobs, as many were of the white-collar variety that had the ability to be done remotely. That means that their incomes were not affected, and they could continue to invest in what was at one point a depressed market. We also saw retail trading (or as I like to fancy, day trading) jump during this pandemic, accounting for anywhere between a fifth to a quarter of trades on some days. This trend is going to continue to give credence to what some professionals say is a stock market that is 'decoupled' from the economy. Overall, the wealth gaps we see are what is causing the stock market to continue to grow and set record highs while the economy is in a recession.

The furthering disconnect between the stock market and the economy is in and of itself just another example of growing inequality in the United States. What is a solution to this widening inequality? Many politicians have put out plans to address this, be it a wealth tax, closing various tax loopholes, or extending child tax credits/baby bonds to families. It remains to be seen if any of these ideas are implemented, but I personally feel that democracy and capitalism are both works in progress where experimentation and innovation are key to further advancing an ever-changing society. I regress and leave you with this parting statement: the next time you see the day's big gains in the markets being reported or hear anyone brag about how the stock market is performing, just remember that the wider economy may not be seeing the same fruits. The stock market is not the economy.