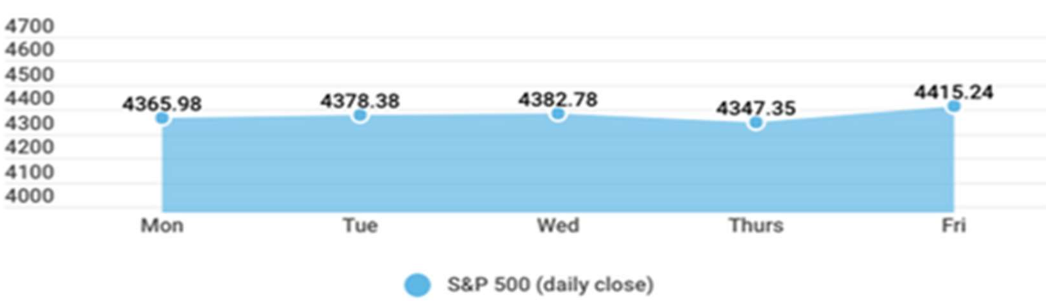
Weekly Economic Update Nov. 13, 2023

A powerful Friday rally left stocks higher last week, extending the market's early November gains.

The Dow Jones Industrial Average rose 0.65%, while the Standard & Poor's 500 advanced 1.31%. The Nasdaq Composite index jumped 2.37% higher for the week. The MSCI EAFE index, which tracks developed overseas stock markets, edged 0.25% higher.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	34,283.10	+0.65%	+3.43%
NASDAQ	13,798.11	+2.37%	+31.83%
MSCI-EAFE	2,036.08	+0.25%	+4.74%
S&P 500	4,415.24	+1.31%	+15.00%



	Treasury	Close	Week	Y-T-D
	10-Year Note	4.61%	+0.04%	+0.73%

Sources: The Wall Street Journal, November 10, 2023; Treasury.gov, November 10, 2023
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, November 3, to Friday, November 10 close. Weekly performance for the MSCI-EAFE is measured from Friday, November 3 open to Thursday, November 9 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Stocks Extend Gains

In a news-light week, stocks added to the gains of the previous week's rally, helped by stable bond yields. Last week's advance did not go smoothly, however, as the week's accumulated gains were erased on Thursday by the combination of a 30-year Treasury bond auction that saw lower-than-expected investor demand, which sent bond yields sharply higher, and disconcerting remarks by Powell that disappointed investors harboring hopes for the conclusion of the Fed's rate-hike cycle.

Stocks rebounded strongly on Friday as investors reconsidered Powell's comments, and bond yields retreated, leaving the rally from October lows intact.

Powell Speaks

In last week's presentation to a gathering sponsored by the International Monetary Fund, Fed Chair Powell said that while he and other Fed officials were encouraged by the progress in bringing down inflation, he was "not confident" that the Fed's current restrictive monetary policy stance was sufficient to achieve the Fed's target inflation rate of two percent.[4]

His comments, which followed the Fed's two successive decisions to pause on fresh interest rate increases, emphasized that there remained a long way to go to achieve their goal, and the Fed is committed to doing what's necessary to reach that target, whether that's through additional rate hikes or by keeping rates high for longer.

This Week: Key Economic Data

Tuesday: Consumer Price Index (CPI).

Wednesday: Producer Price Index (PPI). Retail Sales.

Thursday: Jobless Claims. Industrial Production.

Friday: Housing Starts.

Quote of the Week

"The truth is like a lion - you do not need to defend it. Set it free, and it will defend itself."

– Saint Augustine

Of Note

Today we follow the breadcrumbs of simple math and bond market signals toward an oft-repeated pattern of how once-great nations become, well…not so great anymore. Debt, once it passes the Rubicon from extreme to just plain madness, destroys nations. Just ask the former Spanish, British or Dutch empires. Or ask the inter-war Germans. Ask the Yugoslavians of the 1990's or ask a historian of Ancient Rome or a merchant in modern Argentina.

It's all pretty much the same story, just different a different stage or curtain call. Like Hemingway's description of poverty, the process begins slowly at first, and then all at once. Part of this process involves currency debasement needed to pay down more desperate issuance of IOUs, a process evidenced by rising rather than "transitory" inflation.

Thereafter, comes increased social unrest, and hence increased centralization from the political left or right in the name of "what's best for us." Sound familiar?

Centralization never works in the long run, but that has never stopped opportunists from trying. Just look at our central bankers. In a centralized rather than free market, the very name "central bank" should be a dead give-away as to their real role and profile. As private central banks have been slowly increasing their hidden power and control over national markets and hence national welfare, the very notion of free price discovery in bonds, and indirectly in stocks, is now all but an extinct financial creature in the neo-feudalism which long ago replaced genuine capitalism.

When central banks like the Fed repress rates and print gobs and gobs of money, bonds are artificially supported, which means their prices go up and their yields are compressed. When yields are low, rates are low, which means the cost of credit is cheap, allowing otherwise profitless names in the stock markets to borrow money and time for years of temporary prosperity—like a 600% rise in a post-08 S&P 500. In short, central bank repressed rates are a profound tailwind for otherwise mediocre risk assets.
But when central banks like the Fed raise rates (ostensibly to “fight inflation”), the opposite effect happens—and things break, really break.

In normal, free-market cycles devoid of central bank “support,” bonds and hence rates rise and fall naturally based on natural demand and natural supply. Imagine that? These movements lead to frequent but healthy moments of what von Mises and Schumpeter described as “constructive destruction”—i.e., a cleaning out of debt-soaked and failing enterprises in naturally occurring recessions and naturally occurring market drawdowns.

But central banks somehow thought they could outlaw recessions by printing money out of thin air to support bonds and repress yields. You know—solve a debt crisis with more debt. This was hubris at the highest level, and the stupid just became a habit and even received a fancy name to justify it—Modern Monetary Theory.

But natural market forces are stronger than central bank forces. The longer central banks postponed pain to win Noble Prizes and ego-lifting acclaim from the un-informed, the greater the natural pain these central planners created as they now slowly realize that the bond market, like an ocean, is more powerful than a band of unelected market stewards. (Recall James Carville once said: “I used to think that if there was reincarnation, I wanted to come back as the president or the Pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimate everybody.”)

Central bankers, it seems, are beginning to realize what informed credit market jocks have always known, the bond market is stronger than any central bank. Eventually central bankers lose control of artificial bond pricing. Which means that eventually the great weight of sinking bonds and hence rising yields and rates becomes more powerful than central bank money printers to keep those bonds artificially “supported.”

Even the fine folks at the WSJ or Financial Times (FT) are beginning to worry out loud as US Treasury supplies far outstrip natural demand, causing bond prices to fall and yields and rates to rise fatally higher than central bankers once thought safely under their control. This grotesque supply and demand mis-match has only risen exponentially in recent months.

America may be running out of takers/suckers for Its ever-increasing IOUs. The trillions in spending forecasted for year-end and into 2024 just don't have any real money behind it, which means more IOUs will be spitting out of DC with less and less love/demand for the same. This, of course, has been a real problem hiding in plain site for a long, long time. As supply outpaces demand for sovereign bonds, their prices sink, their yields rise and hence interest rates—the cost of debt—becomes fatal rather than just painful.

The journalists at the FT, most of whom never sat at a trading desk, however, still have a very hard time imaging the unspeakable—i.e., a total implosion of sovereign bonds, and hence a total implosion of the financial system. They still see the US Treasury as too big to fail—or to use their own words, any failure of this sacred US Sovereign bond is "unthinkable." Well…think again.

But at least the main-stream-financial pundits are crying that any real threat to Uncle Sam's IOUs "would force the state to act", however we need to clarify what "forcing the state to act" really means—i.e., in simple speak. In short, this means the "state" would have to "act" by saving the bond market in particular and the global financial system in general via trillions and trillions of printed dollars to purchase otherwise unloved IOUs from Uncle Sam. In other words, the only way to save bonds is to kill currencies.

This result, by the way, is a now familiar trajectory to any one paying attention (think of the September 2019 repo crisis, the March 2020 Covid crash or the 2022 Gilt crisis in the UK). Such "state action," of course, slowly kills the US dollar—but the last bubble to pop in every centralized, debt-soaked financial failure throughout history is always the currency.

The once exceptional USD, sadly, is no exception. It just takes longer, a lot longer, to bring down a world reserve currency. But at least the mainstream pundits are catching on. This is only because the problem of unprecedented deficits alongside rising bond yields and hence debt costs are now too obvious to ignore. The WSJ recently wrote that "deficits finally matter." The facts and Fed-speak all point toward a talking down of the USD in favor of Uncle Sam's broken IOU. That is, the media is already planting the seeds for the USD's painful endgame.

Eventually a choice will have to be made between saving the system (of which sovereign bonds are the foundation) or sacrificing the currency. In other words, get ready for more dollar-destroying "state action" from that non-state/private enterprise otherwise known as the Fed—all in the form of direct magical mouse-click money.

In fact, the only thing that could publicly justify (and partially absorb) another massive dose of 2020-like money printing (and hence currency debasement) would be a big, fat, ugly war with war-like “emergency measures” whereby our leaders can blame decades of debt-addiction on battle smoke (or COVID, Putin, and men from Mars) rather than their own bathroom mirrors.

But with conflicts now red hot in both the Ukraine and Israel, Biden and his broken bond market are hitting an inflection point where the USA just can’t really afford more war support to its allies without thinning the USD and over-stretching the US Treasury. And so, folks…around and round we go in the ultimate vicious circle within which all debt-soaked nations throughout history ultimately find themselves, namely: 1) poorly managed nations get too drunk on debt, and then 2) debase their currency to pay their debt; thereafter, 3) inflation comes, followed by 4) rising rates to fight that inflation, which in turn means 5) higher debt service costs, which means 6) more inflationary currency creation is rolled out to pay those higher rates. Stated more simply, the USA has hit the fiscal dominance arc of the debt-cycle vicious circle wherein fighting inflation just creates more inflation.

We, of course, are not the only ones who see this. In fact, pretty much the entire world is catching on, with the BRICS+ nations making the first steady moves (de-dollarization) as eastern and other central banks continue to stack physical gold at record-levels in preparation for the slow but steady decline of the World Reserve Currency. Just like kings bringing horses and cannons to their borders to defend against an approaching invader, central banks are stacking physical gold to defend against a debased USD. This may explain why gold continues to rise in London and NYC despite so-called “positive real rates” and a still relatively strong USD. That is, the world, including the Shanghai gold exchange, is seeing the golden lighthouse through the smoke of burning currencies.[5]

Footnotes and Sources

1. The Wall Street Journal, November 10, 2023.
2. The Wall Street Journal, November 10, 2023.
3. The Wall Street Journal, November 10, 2023.
4. CNBC, November 9, 2023.
5. goldswitzerland.com/debt-currency-debasement-war-the-timeless-pillars-of-failure/

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Please consult your financial professional for additional information.