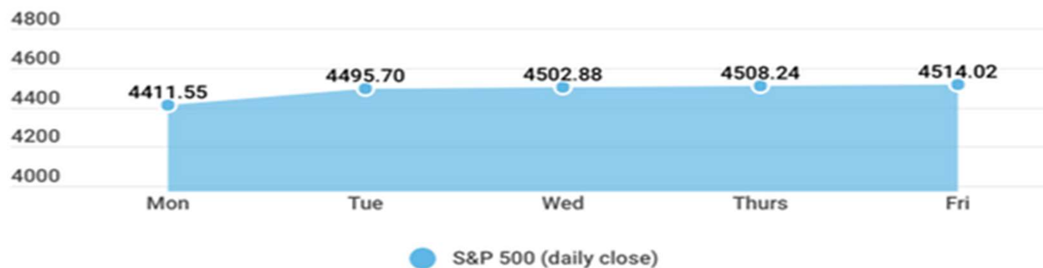
Amadeus
Wealth Alternatives

WEEKLY ECONOMIC UPDATE NOV. 20, 2023

Stocks extended their November rally last week as investors cheered lower-than-forecast inflation data.

The Dow Jones Industrial Average gained 1.94%, while the Standard & Poor's 500 added 2.24%. The Nasdaq Composite index rose 2.37% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, increased 3.36%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	34,947.28	+1.94%	+5.43%
NASDAQ	14,125.48	+2.37%	+34.96%
MSCI-EAFE	2,079.51	+3.36%	+6.97%
S&P 500	4,514.02	+2.24%	+17.57%



	Treasury	Close	Week	Y-T-D
	10-Year Note	4.44%	-0.17%	+0.56%

Sources: The Wall Street Journal, November 17, 2023; Treasury.gov, November 17, 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 10, to Friday, November 17 close. Weekly performance for the MSCI-EAFE is measured from Friday, November 10 open to Thursday, November 16 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Stocks March Higher

A better-than-anticipated consumer inflation number on Tuesday sent bond yields sharply lower, igniting a powerful, exceptionally broad-based rally that saw 91% of all New York Stock Exchange volume advancing in price and a similarly substantial advance (85%) on the NASDAQ. Small-cap stock performance was solid, surging 5.2%, more than double the advance of the S&P 500.[4]

Further gains came the following day as wholesale price inflation rose even slower than consumer prices. The rally paused in the final days of trading as stocks digested their gains and investors assessed weak retail sales and industrial production reports and a rise in continuing jobless claims.

Inflation Cools

Two inflation reports released last week, the Consumer Price Index (CPI) and the Producer Price Index (PPI), showed continued inflation progress. Consumer prices were flat in October from the previous month, while the 12-month increase was 3.2%. Both were below market forecasts. Core CPI (excluding food and energy) also moderated, rising just 0.2% in October and 4.0% from a year ago– below forecast. The climb in the annual core CPI was the lowest in two years.[5]

Producer prices confirmed the disinflationary picture, as wholesale prices declined 0.5% in October (versus a +0.1% forecast). It was the biggest decline in 3 ½ years. Over the last 12 months, wholesale prices rose just 1.3%.[6]

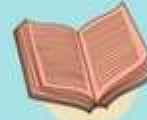
This Week: Key Economic Data

Tuesday: Existing Home Sales. FOMC Minutes.

Wednesday: Durable Goods Orders. Jobless Claims. Consumer Sentiment.

Friday: Purchasing Manager’s Index Composite

Quote of the Week



“Maybe if we start telling people the brain is an app, they’ll start using it.”

– Donald Duck Cartoon

Of Note

Have you heard the good news? The Atlanta Fed GDPNow estimates a 5.9% growth in real GDP for Q3 2023. In nominal terms, we can even boast of an 8.9% surge. What fantastic news! Growth! Productivity! This must mean we can all breathe a collective sigh of relief as Powell continues his valiant war against inflation as GDP rises. We can almost hear the champagne bottles popping from the Eccles Building. The financial wizards have saved us once again, right? Wrong. Why? Debt-driven growth is not Growth, but a slow death trap. As usual, the answer lies in math, history and, of course, THE BOND MARKET.

The bond market reflects debt forces, the most cancerous of all market killers once they metastasize from the acceptable to the fantastical, and the cheap to the unaffordable. Today, we stare upon the greatest national and global debt bubble in history. And the cost of that debt is getting higher, not lower. This should be the key theme of every conversation, but instead, our citizens are arguing over gender neutral bathrooms and politicos scurrying for power like donkeys fighting for hay.

It would be far better if people understood boring things like sovereign bonds. In particular, they just need to consider and understand yields on Uncle Sam’s IOU (with particular emphasis on his 10-Year UST),

which tells us the market's measurement of the cost of debt. And given that debt is the sole (rotten) wind beneath the wings of the post-08 American dream, when those yields rise like approaching shark fins, we all need to pause and think deeply, realistically and, hence differently from the consensus pablum which currently passes for financial reporting.

We are now seeing rising yields on the 10Y UST while inflation rates (intentionally misreported) continue to fall—temporarily. We need to understand how scary it is to see GDP rising alongside 10Y Treasury yields. Debt-based growth is the oxymoron of, well…morons! GDP is rising because government deficit spending (on everything from yet another preventable yet losing war in the Ukraine to stimulus checks for migrants pouring through Texas) is rising well beyond sustainable levels. Near-term spending always leads to growth. But when that spending is done on a maxed-out national credit card, the short-term growth (i.e., GDPNow forecasts above) come at a comical, yet serious price. Stated otherwise, spending, even deficit spending, has quick benefits; the debt consequences, and economic pains, however, take longer to show their economic effects. But when they do, the sickening results are as mathematical as they are historical.

If one, for example, were to hand a college frat boy his rich uncle's credit card and permit him unlimited credit, that frat boy would undoubtedly throw the kind of seductive campus parties which would ensure his popularity alongside many, many weekends of extravagant bacchanalia and a campus filled with smiling, drunk undergrads. Soon, the frat house would construct its own elaborate bar, with weekly transport of unlimited beer kegs, a billiards room adorned with flat-screen TVs and 24-hour ESPN. Others, even from universities miles way, would embark upon a joyous pilgrimage, crowding their Friday-night gatherings with shouts of awe and cries for more vodka shots. The fun would seemingly never end. Until, that is, the credit card bill came, and the rich Uncle was tapped out. At that point, the frat house's growth story devolves into a comical escapade of the drunk and the stupid, which effectively describes the profiles and policies of our so-called financial elite.

In the DC Frat House, when GDP spikes on the tailwind of deficit spending, the Fed starts to suffer from the beer-goggle effect of blindness to reality. It then feels even more pressure (or drunken confidence) to raise short-term interest rates, which also sends the USD higher in the near-term but just about everything else (i.e., stocks, bonds, real estate and tax receipts) lower. This means the risk of a market implosion in a setting of rising GDP increases exponentially, which is precisely what we saw near the end of 2018 when Powell tried to tighten the Fed's balance sheet and raise rates at the same time. The net result? Markets tanked by Christmas, and as

the new year rolled in, the Fed was bailing out the repo markets to the tune of hundreds of billions/week and printing inflationary money quicker than Nolan Ryan's fastball.

But this otherwise ignored pattern, like a fast-ball, is pretty easy to track. The more the Fed hikes rates, the fatter and more expensive are Uncle Sam's deficits as GDP rises on drunken (deficit) spending. This leads to a mathematical case of "fiscal dominance," which even the St. Louis Fed confessed in June the ironic scenario in which the war on inflation (fought with rising rates) actually causes more inflation. Why? Because rising rates don't just stimulate a GDP frat party, but they make America's debt costs skyrocket into the trillion/year category, which can then only be paid by a Fed mouse-clicker, which is the inevitable inflationary consequence of Powell's deflationary "higher-for-longer" policy.

Stated otherwise, Powell, like Robert E. Lee, Napoleon, Paulus, Westmorland and Zelensky, is fighting a losing war. Or for you film buffs who recall Maverick "writing checks [his] body can't cash," America is issuing IOUs its Treasury Dept. can't pay—unless, of course, it prints a lot more fake/fiat money. And those IOUs (i.e., USTs) are rising at a sickening rate, which means bond prices (which move inversely to supply) will fall and yields (which move inversely to price) will rise. Read that last sentence again. It's our bond market (and nightmare) in a nutshell.

And when yields on US 10Y USTs rise, the interest expense on Uncle Same's $33T bar tab becomes a bayonet wound to the economy and the market. Thus, when we see GDP growth rising at the same time UST supplies (and hence yields) are climbing at a rate not seen in 55 years, this is not good news—it's horribly, horribly bad news. Not only are rates rising alongside GDP, but our deficits are growing even deeper and hence this vicious circle of debt just gets deadlier and darker. And this means the need to cover those deficits by printing trillions out of thin air becomes clearer and clearer, which means inflation is no longer a debate, but as fatally foreseeable as Pickett's failed charge at Gettysburg.

In the coming months, or early into 2024, we see rising US sovereign bond yields and rising rates which will be near-term deflationary for risk assets and disturbing for Main Street economies no longer able to re-finance their way out of a national debt trap. At some point thereafter, the cost of those debts will demand a monetary response (money printing to the moon) which will be, by definition, inflationary for regular Joes and no help to mean-reverting markets. In short: We not only see inflation ahead, but stagflation to boot. Yields matter. They are the approaching shark fins racing toward our shores which no one wishes to see. But as warned already, these shark fins matter,

and we are most certainly going to need a bigger boat.[7]

Footnotes and Sources

1. The Wall Street Journal, November 17, 2023.
2. The Wall Street Journal, November 17, 2023.
3. The Wall Street Journal, November 17, 2023.
4. CNBC, November 14, 2023.
5. CNBC, November 14, 2023.
6. CNBC, November 14, 2023.
7. zerohedge.com/markets/rising-gdp-rising-yields-major-sign-uh-oh

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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.

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