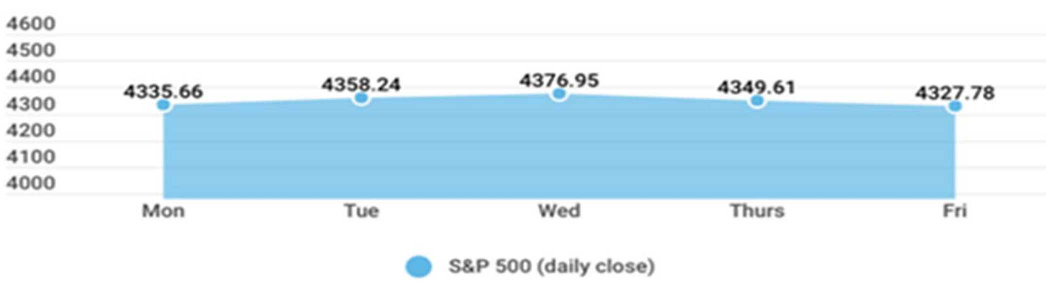
WEEKLY ECONOMIC UPDATE OCT. 16, 2023

Stocks ended mixed last week amid the outbreak of hostilities in the Middle East and higher-than-expected inflation data.

The Dow Jones Industrial Average gained 0.20%, while the Standard & Poor's 500 rose 0.45%. But the Nasdaq Composite index slipped 0.18% for the five trading days. The MSCI EAFE index, which tracks developed overseas stock markets, advanced 2.37%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	**33,670.29**	**+0.20%**	**+1.58%**
NASDAQ	**13,407.23**	**-0.18%**	**+28.10%**
MSCI-EAFE	**2,040.99**	**+2.37%**	**+4.99%**
S&P 500	**4,327.78**	**+0.45%**	**+12.72%**



	Treasury	Close	Week	Y-T-D
	10-Year Note	4.63%	-0.15%	+0.75%

Sources: The Wall Street Journal, October 13, 2023; Treasury.gov, October 13, 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, October 6, to Friday, October 13 close. Weekly performance for the MSCI-EAFE is measured from Friday, October 6 open to Thursday, October 12 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Inflation Hurts Sentiment

Stocks exhibited remarkable resilience in the face of a surprise attack on Israel and hotter inflation data than investors expected. Stock prices initially buckled on the breakout of hostilities in the Middle East. Still, they rallied in afternoon trading as investors gained optimism that the war may not spread to other countries. Oil and defense stocks rose sharply, while airlines fell.

Stocks continued to advance into Wednesday as falling bond yields and a retreat in oil prices overcame the disappointment of an elevated wholesale inflation report. When consumer prices also came in higher than anticipated by Wall Street, stocks moved lower in response to higher bond yields. The weakness continued into Friday on a bump in consumer inflation expectations despite a solid start to a new earnings season.

PPI, CPI Updates

The disinflationary trend appears to be stalling if the inflation numbers are any indication. September's producer price index (PPI) came in higher than expected, rising 0.5% versus a forecast of a 0.3% increase, while the year-over-year increase of 2.2% was the most significant jump since April. The driver of last month's hop was in goods, which surged 0.9%.[4]

Consumer inflation data followed, which also came in hotter than forecast. The Consumer Price Index (CPI) rose 0.4% in September and 3.7% year-over-year above the forecast of 0.3% and 3.6%, respectively. The news on core inflation was a bit more comforting, rising in line with expectations.[5]

This Week: Key Economic Data

Tuesday: Retail Sales. Industrial Production.

Wednesday: Housing Starts.

Thursday: Existing Home Sales. Jobless Claims. Index of Leading Economic Indicators.

"Common sense is not so common"

–Voltaire

Of Note

Powell's "higher for longer" war against inflation will actually (and ironically) lead to, well… greater inflation.

That is, the rising interest expense on Uncle Sam's fatally rising 33T bar tab will inevitably need to be paid with an inflationary mouse-clicker at the Eccles Building. It appears Powell's war on inflation is mostly just optics, as he secretly seeks inflation to help pay down that bar tab with an increasingly inflated/debased US dollar.

Powell achieves this seemingly open lie by publicly declaring a steady decline in inflation by simply misreporting the true CPI number. As John Williams recently argued, true inflation using an honest (rather than the openly bogus BLS) measure is now closer to 11.5% rather than the officially reported headline rate of 3.7%.

This should come as very little surprise to those whose eyes are open to the Modis Operandi of debt-soaked/failed regimes. As former European Commission President, Jean-Claude Juncker confessed: "When the data is too bad, we just lie."

But even for those who still believe the current Truman Show inflation and "soft landing" narrative out of DC, or legacy media A, B, or C, there's more fire adding to the inflationary flames than just bogus narratives and calming platitudes. In particular, we're talking about oil-driven inflation, and nothing burns faster.

Between rising rates, which make capex investing untenable for US oil producers, and a weekend at the White House, which has spent years effectively legislating US oil into oblivion, US energy supply is falling, and we all know that weakening supply leads to higher prices—and inflation. Meanwhile, Saudi Arabia, whom that same White House called a "pariah state," has not been warming to Biden's awkward fist-pumps and increased production pleas, but rather joining other OPEC leaders in cutting, rather than expanding, oil production.

Net result, both national and global oil inventories are falling, and falling hard. The once "go green" White House realized that the world, and inflation scales, still revolves around oil, especially after sanctioning Western Europe's former energy supplier in one of the most short-sighted policy decisions since the Iraq war.

This may explain why Biden changed his stripes and why there was a sudden pivot toward allowing greater US shale output in 2023 by pumping more cash into those shale fields at a pace not seen in 3 years. Unfortunately, however, this may be too little too late (like Powell's QT) to prevent oil price shocks and higher inflation into year end, thus adding insult to an already injured and rising US CPI measure of inflation.

As oil supply tightens, oil prices, and hence inflation rates, rise together with bond yields and interest rates—a perfect storm for over-inflated bond, stock, and real estate markets.

Those prices and inflation rates would be even worse if Chinese oil demand rises—which is why current Western headlines are literally praying for China to implode first. This might explain why The Economist has had two consecutive cover stories about an imploding China.

If inflation, however misreported, becomes obviously more real and felt, the consequent rising bond yields will make the US dollar stronger and Uncle Sam's bar tab more expensive, which hardy bodes well for America's twin deficit black-hole of unpayable debt unless the Fed starts printing more fake and inflationary money to buy its own IOUs and weaken its export-killing, and BRICS-ignoring, US dollar.

No matter how we look at the macros, the Fed will eventually have no choice but to pivot toward more instant liquidity and hence more inflationary policies to save/monetize its broken bond markets. Once this inevitability becomes a headline, the temporarily rising US dollar will be seen for what most of the informed world already recognizes—just another fiat monster backing a world reserve currency in the hands of a nation whose debt to GDP and deficit to GDP ratios mirror that of any other banana republic.[6]

Footnotes and Sources

1. The Wall Street Journal, October 13, 2023
2. The Wall Street Journal, October 13, 2023
3. The Wall Street Journal, October 13, 2023
4. CNBC, October 11, 2023
5. CNBC, October 12, 2023
6. zerohedge.com/geopolitical/bad-really-bad

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.