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In this week's recap: Stocks have a warmer week as inflation cools.

Weekly Economic Update

Presented by Ed Papier, August 15, 2022

THE WEEK ON WALL STREET

An improving inflation outlook buoyed investors' spirits last week, helping lift stocks to solid gains. The Dow Jones Industrial Average advanced 2.92%, while the Standard & Poor's 500 rose 3.26%. The Nasdaq Composite index added 3.08% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, gained 2.39%. [1,2,3]

LOWER INFLATION SPURS BUYING

Stock prices surged mid-week when the U.S. Bureau of Labor Statistics released a better-than-expected Consumer Price Index (CPI) number, with buying momentum building throughout the trading session. Gains were significant across the board, with technology and small-cap companies leading the market higher. The mid-week rally sent the S&P 500 to its highest level since May and the Nasdaq to its highest level since April. Bond yields fell on expectations that the Fed's pressure to hike rates further might ease. After pausing on Thursday, stocks again ripped higher on Friday, aided, in part, by a report indicating improving consumer sentiment. [4]

INFLATION COOLS

The Consumer Price Index in July was softer than expected, with prices unchanged from the previous month thanks to a 4.6% decline in energy prices and a 7.7% drop in gasoline. [4]

Despite the encouraging results, the CPI report still evidenced upward price pressure. The year-over-year inflation rate remained at 8.5%, while the core CPI (excluding food and energy) came in at 5.9%.

Among the index components seeing substantial price increases were food (+10.9% from 12 months ago) and shelter (+5.7%). Producer prices fell 0.5% in July, suggesting that future consumer price increases may continue to moderate. [5,6]

THE WEEK AHEAD: KEY ECONOMIC DATA

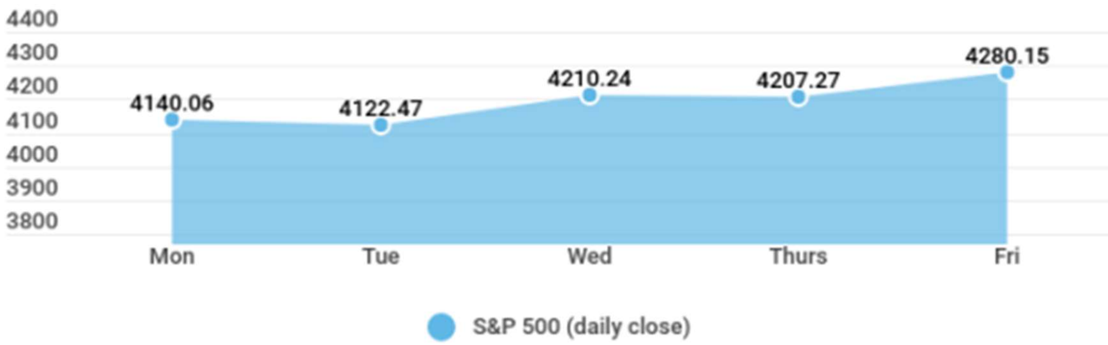
Tuesday: Industrial Production. Housing Starts.
Wednesday: Retail Sales. Federal Open Market Committee (FOMC) Minutes.
Thursday: Jobless Claims. Existing Home Sales. Index of Leading Economic Indicators.

QUOTE OF THE WEEK

"Madness is the exception in individuals but the rule in groups."

FREDRICH NIETZCHE

Market Index	Close	Week	Y-T-D
DJIA	33,761.05	+2.92%	-7.09%
NASDAQ	13,047.19	+3.08%	-16.60%
MSCI-EAFE	1,970.07	+2.39%	-15.67%
S&P 500	4,280.15	+3.26%	-10.20%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.84%	+0.01%	+1.32%

Sources: The Wall Street Journal, August 12, 2022; Treasury.gov, August 12, 2022
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, August 5, to Friday, August 12, close. Weekly performance for the MSCI-EAFE is measured from Friday, August 5, open to Thursday, August 11, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

You often hear the media, politicians, and financial analysts casually toss around the word "trillion" without appreciating what it means. A trillion is a massive, almost unfathomable number. Let's put the number in perspective. If you earned $1 per second, it would take 11 days to make a million dollars, 31 and a half years to make a billion dollars and 31,688 years to make a trillion dollars - that's how enormous a trillion is. When politicians carelessly spend and print money measured in the trillions, we're in dangerous territory. And that is precisely what the Federal Reserve and the central banking system have enabled the US government to do. From the start of Covid until today, the Federal Reserve has printed more money than it has for the entire existence of the US. For example, from the founding of the US, it took over 227 years to print its first $6 trillion. But in just a matter of months recently, the US government printed more than $6 trillion. During that period, the US money supply increased by a whopping 41%. In short, the Fed's actions amounted to the biggest monetary explosion that has ever occurred. Initially, the Fed assured the American people its actions wouldn't cause severe price increases, however didn't take long to prove that assertion false. As soon as rising prices became apparent, the Fed claimed that the inflation was only "transitory" and that there was nothing to be worried about. Then, when the inflation was obviously not transitory, they told us "inflation was actually a good thing." Of course, they were dead wrong and knew it—they were "gaslighting". The truth is that inflation is out of control, and nothing can stop it. Even according to the government's own CPI statistics—which understates reality—inflation is breaking through 40-year highs. That means the actual situation is much worse. You might appropriate conclude we've got inflation without representation. T he US federal government's deficit spending and debt are the most significant factors driving this money printing, resulting in drastic price increases. The US federal government has the biggest debt in the history of the world. And it's continuing to grow at a rapid, unstoppable pace. It took until 1981 for the government to rack up its first trillion in debt. After that, the second trillion only took four years. The next trillions came in increasingly shorter intervals. Today, the US federal debt has gone parabolic and is well over $30 trillion. If you earned $1 per second, it would take over 966,484 YEARS to pay off the US federal debt. And that's with the unrealistic assumption that it would stop growing. The truth is the debt will keep piling up unless Congress makes some politically impossible decisions to cut spending. But don't count on that happening any time soon. In fact, they're racing in the opposite direction now that they've normalized multitrillion-dollar deficits. Even by the CBO's optimistic projections, the US government will have a cumulative deficit of over $15 trillion for the next ten years. So, who is going to finance these incomprehensible shortfalls? The only entity capable is the Fed's printing presses. To simplify the process in three steps:

Step #1: Congress spends trillions more than the federal government takes in from taxes.
Step #2: The Treasury issues debt to cover the difference.
Step #3: The Federal Reserve creates currency out of thin air to buy the debt.

In short, this insidious process is nothing more than legalized counterfeiting. It's taxation without consent via currency debasement and is the true source of inflation. Mainstream media and economists perform incredible mental gymnastics to conceal and justify the fraud. That's how government spending, deficits, and the federal debt affect inflation. As long as the average person doesn't notice the rising prices, the system works well. However, once the price increases become painful enough, it creates political pressure for the Fed to combat inflation by raising interest rates, however the Fed has a serious problem this time. The amount of federal debt is so extreme that even a return of interest rates to their historical average would mean paying an interest expense that would consume more than half of tax revenues. Interest expense would eclipse Social Security and defense spending and become the largest item in the federal budget. Further, with price increases soaring to 40-year highs, a return to the historical average interest rate will not be enough to rein in inflation—not even close. A drastic rise in interest rates is needed—perhaps to 10% or higher (think Paul Volcker). If that happened, it would mean that the US government is paying more for interest expense than it takes in from taxes. In short, the Federal Reserve is trapped since raising interest rates high enough to dent inflation would bankrupt the US government. In short, the US government is fast approaching a financial endgame. It needs to raise interest rates to combat out-of-control inflation but can't because it would cause its bankruptcy. In other words, it's game over. They have no choice but to "reset" the system—that's what governments do when they are trapped. Think of it like this, imagine a spoiled child playing a board game, and rather than admit he is losing, he flips the board. This is what governments will do now that they are financially checkmated. They can't win, even in their own rigged game, and are now left with the choice of losing power or flipping the board. Since power does not relinquish itself voluntarily, we should presume they'll choose to flip the board. The bottom line is the current monetary system is on its way out. Perhaps this is one reason we're seeing so many initiatives to create a Central Bank Digital Currency around the globe. [7]

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Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. The Wall Street Journal, August 12, 2022
2. The Wall Street Journal, August 12, 2022
3. The Wall Street Journal, August 12, 2022
4. CNBC, August 10, 2022
5. CNBC, August 10, 2022
6. CNBC, August 11, 2022
7. zerohedge.com/economics/its-game-over-fed-expect-monetary-rug-pull-soon