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Amadeus Wealth Alternatives
Your Compass to Alternative Investments

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In this week's recap: Rising number of COVID-19 cases and no progress on a stimulus bill lead to a bumpy week on Wall Street; U.K. anticipates "No-Deal" for Brexit.

Weekly Economic Update

Presented by Edward Papier, CIMA® CFF, December 14, 2020

THE WEEK ON WALL STREET

Stocks retreated last week on rising COVID-19 infections and slow progress on an economic relief bill.

The Dow Jones Industrial Average dipped 0.57%, while the Standard & Poor's 500 dropped 0.96%. The Nasdaq Composite index fell 0.69% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, declined 0.05%.[1,2,3]

STIMULUS STALLS, STOCKS STUMBLE

The market grappled all week with worries over rising COVID-19 cases and the economic restrictions that followed. Nevertheless, there were moments of optimism— such as the starting of vaccinations in the U.K.— that drove markets to record highs.[4]

But gains could not be sustained as an agreement on a fiscal stimulus bill remained elusive and daily news regarding COVID-19 cases undermined investor sentiment.

Markets were also challenged by having to absorb a number of new and secondary stock offerings last week, including two high-profile technology IPOs. The Energy sector continued its strong run, while small and mid-cap stocks posted another week of positive performance.[5]

A "NO-DEAL" BREXIT MORE LIKELY

The prospects of an agreement to manage Britain's exit from the European Union by year end dimmed as the two parties failed to narrow their differences in a meeting held last week.[6]

Though primarily a European issue, a no-deal Brexit may hold consequences for U.S. businesses and investors. The failure to reach an agreement has the potential to disrupt an already fragile supply chain and cause issues in the financial markets. A supply chain disruption may weaken European economies (e.g., Germany) that are important to American companies. Another consequence may be a stronger U.S. dollar, which would make American exports more expensive and less competitive.

Little time remains in striking an agreement since the prevailing framework ends December 31, 2020.

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Industrial Production.

Wednesday: Retail Sales, Federal Open Market Committee (FOMC) Announcement.

Thursday: Housing Starts, Jobless Claims.

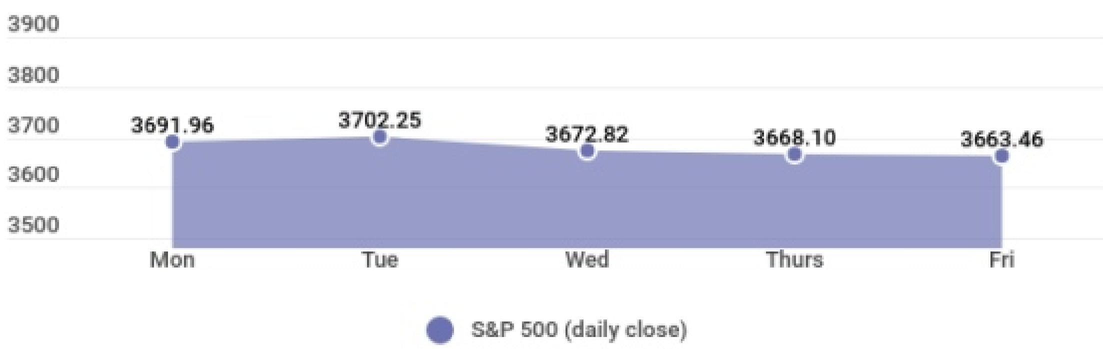
Friday: Index of Leading Economic Indicators.

QUOTE OF THE WEEK

"Holding onto anger is like drinking poison and expecting the other person to die"

BUDDHA

Market Index	Close	Week	Y-T-D
DJIA	30,046.37	-0.57%	+5.28%
NASDAQ	12,377.87	-0.69%	+37.95%
MSCI-EAFE	2,100.00	-0.05%	+3.10%
S&P 500	3,663.46	-0.96%	+13.39%



	Treasury	Close	Week	Y-T-D

	Treasury	Close	Week	Y-T-D
	10-Year Note	0.90%	-0.07%	-1.02%

Sources: The Wall Street Journal, December 11, 2020; Treasury.gov, December 11, 2020
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, December 4, to Friday, December 11, close. Weekly performance for the MSCI-EAFE is measured from Friday, December 4, open to the Thursday, December 10, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

We're approaching all-out market mania with optimism about a COVID vaccine and the ensuing economic renaissance that many seem convinced is right around the corner. The Dow Jones recently closed about 30,000 for the first time.

On his podcast, Peter Schiff talked about the big stock market rally. He said it's not really about the presidential election, or the COVID vaccine, or excitement about Joe Biden. The rally is all about the Federal Reserve. And it always has been.

Pres. Donald Trump took the opportunity to call a press conference to tout the Dow record. "The stock market's just broken 30,000 — never been broken, that number. That's a sacred number, 30,000, and nobody thought they'd ever see it," Trump said. Peter reminds us that Trump said a Biden win would tank the market. "How can Donald Trump claim credit for those gains? Because the markets are forward-looking and the markets are looking forward to President Biden. Yet they're rallying anyway. So, how can the rally be attributable to Trump?"

After Trump beat Hillary Clinton, he took credit for the rise in the stock market right after the election, saying the markets were optimistic about a Trump presidency. By that reasoning, wouldn't this stock market rise in the wake of a Biden win mean the markets are optimistic about a Biden presidency? As Peter put it, Trump wants to have his cake and eat it too. "He wants to claim credit for the gains after he won, and he also wants to claim credit for the gains that happened after he lost."

But the reality is Trump is not the reason the market went up. "The real reason the market went up is the Fed. The market went up because of the Fed when Obama was president, and the market continued to go up on Trump's watch because of the Fed."

Peter said one of the reasons he thinks the markets are rallying this week is the announcement that former Fed chair Janet Yellen will be the next Treasury secretary. "It doesn't matter whether it's Trump or Biden. It's that we have the continuation of this reckless monetary policy."

Yellen heading up the Treasury Department strips away all pretense of Federal Reserve independence and will ensure that the Treasury will have close ties with the Fed and the two institutions can work closely together. "So, this is exactly what the market wants to hear. Janet Yellen is a super dove." Peter said that Yellen is perfect for the position which should really be called the "Secretary of the Debt."

"The Treasury is bare. We've got nothing in there buy IOUs. So, her real job is to manage the debt and to help America go deeper into debt by helping us sell our bonds to lenders around the world. But that's going to be a very difficult thing to do right now because people are smartening up. They don't want to buy our bonds. So, the buyer is going to be the Fed. And that's why this cozy relationship is that much more dangerous because the Treasury is going to be selling its debt directly to the Federal Reserve because the Federal Reserve is the only one dumb enough to buy it." So, this is what the markets are celebrating. It's not that Biden won, or Trump lost.
"They don't care that Biden's president. They care about the Fed as long as that money machine keeps going. And in fact, anything that Biden does to weaken the economy just guarantees more monetary stimulus to supposedly deal with the weakness in the economy, and what's supposedly bad for Main Street is great news for Wall Street, and that's what's being celebrated." In simplest terms – the real villain is the Federal Reserve. "And it needs to be held accountable for the fallout from the explosion of the bubbles they inflate."

Peter also spent some time in this podcast comparing the 1920s with the 2020s. He argues that the 2020s are not going to be like the boom of the 1920s. It's going to be more like a combination of the 1930s with low economic growth and the 1970s with high inflation.[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, December 11, 2020
2. The Wall Street Journal, December 11, 2020
3. The Wall Street Journal, December 11, 2020
4. USAToday.com, December 8, 2020
5. CNBC.com, December 10, 2020
6. CNBC.com, December 9, 2020

7.zerohedge.com/economics/peter-schiff-real-villain-fed