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In this week's recap: Inflation and Ukraine rattle investors another week.

Weekly Economic Update

Presented by Ed Papier, February 21, 2022

THE WEEK ON WALL STREET

Stocks closed lower for the week as escalating tensions on the Russian-Ukrainian border added to existing jitters over higher inflation and a pending tightening of monetary policy.

The Dow Jones Industrial Average slid 1.90%, while the Standard & Poor's 500 declined 1.58%. The Nasdaq Composite index lost 1.76% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, fell 1.00%.^{1,2,3}

GEOPOLITICAL TENSIONS

Markets have been skittish in recent weeks due to persistent, elevated inflation and the uncertainty over how aggressive the Federal Reserve may be with its monetary tightening. As tensions escalated between Russia and the West over a possible Russian invasion of Ukraine, investors moved away from risk assets, such as stocks, and sought the safety of U.S. Treasury bonds.

Stocks were hard hit on Thursday as reports surfaced that both sides were exchanging artillery fire. The slide continued on Friday as prospects of a diplomatic off-ramp appeared to dim. While geopolitical news dominated trading last week, investors were relieved by the Federal Open Market Committee meeting minutes (released on Wednesday) that suggested the Fed may not act any more aggressively than current market expectations.⁴

AN EARLY ECONOMIC SNAPSHOT

Last week three economic reports provided an update on the state of the economy. The first was the Producer Price Index, which suggested that inflationary pressures remain acute. Wholesale prices rose 1.0% last month and posted a 12-month rise of 9.7%, the latter of which was near a record high.⁴

The consumer showed continued strength as retail sales rose a better-than-expected 3.8%, though

some of that gain may be due to higher costs. Meanwhile, industrial production gained 1.4%, nearly triple the consensus expectation. Capacity utilization increased 1.0 percent, reaching its highest level since March 2019.⁵

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Purchasing Managers' Index (PMI) Flash. Consumer Confidence.

Thursday: Gross Domestic Product (GDP). Jobless Claims. New Home Sales.

Friday: Consumer Sentiment. Durable Goods Orders.

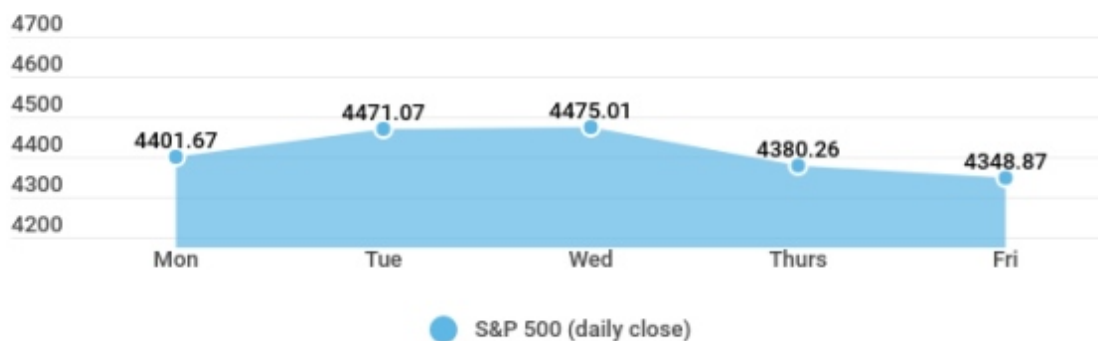
QUOTE OF THE WEEK




"I understood the part up to where you started speaking."

LANCE ROBERTS

Market Index	Close	Week	Y-T-D
DJIA	34,079.18	-1.90%	-6.22%
NASDAQ	13,548.07	-1.76%	-13.40%
MSCI-EAFE	2,256.56	-1.00%	-3.40%
S&P 500	4,348.87	-1.58%	-8.76%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.92%	+0.00%	+0.40%

Sources: The Wall Street Journal, February 18, 2022; Treasury.gov, February 18, 2022

Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ

OF NOTE

The national debt just hit \$30 trillion. Unfortunately, when the numbers we're presented with get to a certain point, our eyes tend to glaze over. After all, one trillion is such an incomprehensible amount that the difference between that and 30 trillion is nearly meaningless in terms of our ability to conceive of it. But when it comes to the ever-increasing government spending, it is important that we do not allow this human psychological tendency to undermine the urgent need to rein in the national debt.

So what does \$30 trillion really mean? Well, it's more than the annual economic production of China, Japan, Germany, the United Kingdom, and India combined. If one takes out the GDPs of the US and China, \$30 trillion is more than the size of the next 14 largest economies combined.

On a micro level, \$30 trillion comes out to over \$116,000 per adult in America. If you're thinking that it won't be *you* paying that down, consider first that no one is "paying it down" at all — at the end of FY 2019, just over two years ago, the national debt was under \$23 trillion. And then consider that even if the government somehow managed to confiscate the total net worth of Jeff Bezos, Elon Musk, Mark Zuckerberg, Bill Gates, and Warren Buffett (and liquidate it all without losing any value), it would knock a measly 2.5 percent off that \$30 trillion figure.

And since no one is talking about how to pay down the debt, the present level of debt still means costs for taxpayers. Already last year, just under 5 percent of your tax dollars went just to paying the interest on the national debt, and that's with historically low interest rates.

Those costs will only accumulate as the national debt grows. As part of its long-term budget projections, the nonpartisan Congressional Budget Office estimates that 30 years from now servicing the debt will cost far more than Social Security, and nearly exceed the cost of Medicare and Medicaid combined. And that's assuming spending remains at current levels — an almost wildly optimistic assumption given the recent spending spike during the pandemic and government proposals to increase spending.

Unfortunately, it's clear that there is little appetite in Washington for addressing the debt beyond kicking the can down the road. Back in December, Congress raised the debt ceiling for the 26th time since 1993, when the national debt was around \$4 trillion. Saturday's deadline saw the ceiling raised by another \$2.5 trillion, allowing the government to avoid default until early 2023.

This cycle of endless brinkmanship with seemingly no impact on debt and deficit reduction has understandably grown frustrating to taxpayers. Yet bipartisan heads *have* come up with improvements to the budget process that remain unimplemented.

By far the most comprehensive reform is the Bipartisan Congressional Budget Reform Act, co-authored by Senators Sheldon Whitehouse (D-RI) and Mike Enzi (R-WY). This bill would allow for an easier pathway for debt-reduction legislation while requiring Congress to set and attempt to adhere to debt-to-GDP ratio targets. Among other provisions, the bill would:

- Require biennial congressional budget resolutions, instead of the annual budget resolutions required under current law;
- Require a budget resolution to specify a target for the ratio of the debt held by the public to the gross domestic product (GDP) for each year covered by the resolution;
- Require the debt-to-GDP target to be enforced using a reconciliation process that requires deficit reduction legislation to be considered using expedited legislative procedures;
- Expand reporting requirements for congressional committees, the Office of Management

and Budget, the Congressional Budget Office, and the Government Accountability Office.⁶

However Congress chooses to go about addressing the debt, taxpayers should demand action beyond continuous cycles of shutdowns and short-term funding bills. It's long past time for Congress to set a clear and attainable path towards fiscal sustainability to provide security for taxpayers and the country for the long haul.⁷

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CITATIONS:

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