WEEKLY ECONOMIC UPDATE FEB. 5, 2024

Stocks pushed higher last week as investors cheered mega-cap tech corporate reports and a better-than-expected employment report.

Stocks At New Highs
At the beginning of the week, stocks surged, anticipating fourth-quarter corporate updates from tech companies and the Federal Reserve's two-day policy meeting; this led to the S&P 500 Index reaching a new record high on Monday.

The market remained relatively stable for the rest of the week until Wednesday, when the Federal Reserve announced its decision to maintain interest rates within the 5.25-5.50 percent target range. The Federal Open Market Committee's (FOMC) news unsettled investors, who anticipated that rates would remain unchanged but expected more specific guidance on the Fed's plan to lower interest rates.[1]

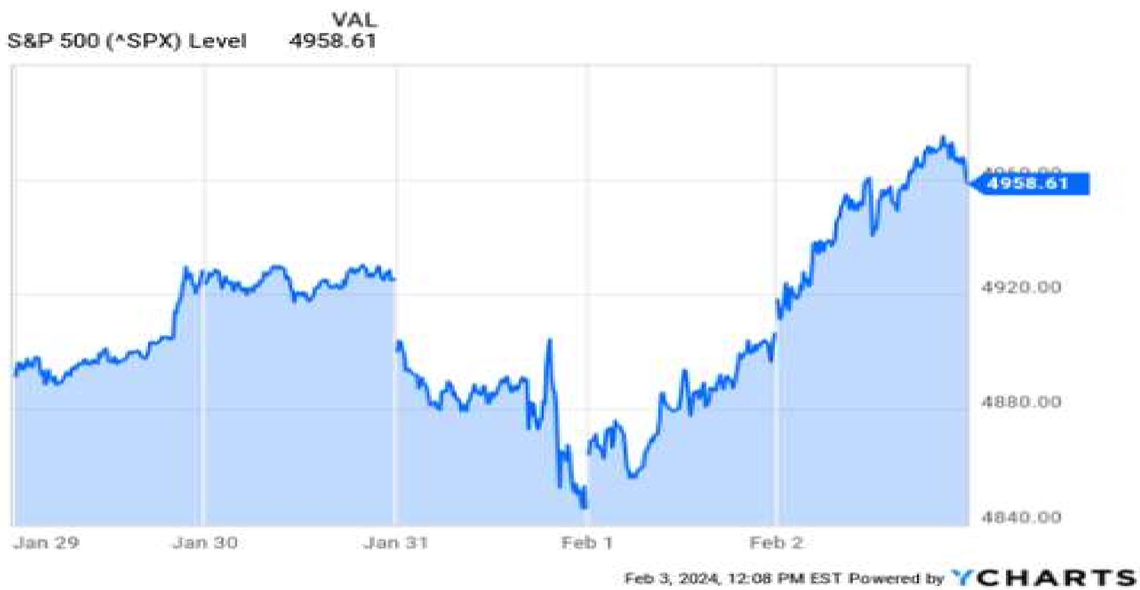
On Friday, the job report for January revealed the addition of 353,000 new jobs, surpassing the forecast of 185,000. This strong report did not negatively impact the markets. Instead, investors interpreted it as confirmation of a robust economy.[2]

YCHARTS

Major Index Return Summary

Name	ROC 5	1M TR	YTD TR	1Y TR
Dow Jones Industrial Average	1.43%	2.58%	2.65%	15.98%
MSCI EAFE	0.02%	0.36%	-0.53%	7.64%
Nasdaq Composite	1.12%	5.87%	4.14%	29.17%
S&P 500	1.38%	4.65%	4.06%	20.59%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 02/02/24	4.03%	3.95% 4.67% 3.40%	2.03% ▲ -13.70% ▼ 18.53% ▲

Source: YCharts.com, February 3, 2024. Weekly performance is measured from Monday, January 29, to Friday, February 2.

ROC 5 = the rate of change in the index for the previous 5 trading days.

TR = total return for the index, which includes any dividends as well as any other cash distributions during the period.

Treasury note yield is expressed in basis points.

Fed's Mixed Signals
The Fed's decision to keep rates steady left some investors disappointed, as they had been hoping for indications of rate cuts in the coming months; this led to a decline in stock prices on Wednesday, with increased selling towards the end of the trading day.

The Wall Street Journal's headline after the FOMC meeting on Wednesday suggested that rate cuts were possible but not expected immediately. The FOMC's policy language, released after the meeting, indicated a subtle shift from considering rate cuts to proposing they could be possible unless inflation became a concern.[3]

This Week: Key Economic Data
Monday: ISM Services Index.
Wednesday: International Trade in Goods & Services. EIA Petroleum Report.
Thursday: Jobless Claims. Fed Balance Sheet.

Quote of the Week

"When misguided public opinion honors what is despicable and despises what is honorable, punishes virtue and rewards vice, encourages what is harmful and discourages what is useful, applauds falsehood and smothers truth under indifference or insult, a nation turns its back on progress and can be restored only by the terrible lessons of catastrophe."

– Frederic Bastiat (1801-1850)

Of Note

Fresh GDP numbers came in and it was a blowout. The kind of blowout that only a $2.7 trillion government deficit can buy while the private economy crumbles around it. Another couple blowout GDP reports like this and Americans will be living under an overpass!

First the numbers. The Bureau of Economic Analysis reported GDP for the fourth quarter came in at 3.3% annualized. Which blew away estimates of 2.0%. And it brought growth for all of last year to 2.5%,which is very healthy on paper.

Note the numbers are preliminary, so they're subject to revision. Still, the media rolled out their finest adjectives: CNN called it "shocking" -- in a good way. The New York Times called it "stunning and spectacular." So what's the problem? Debt, obvioulsy. Your grand-kids bought it all. And then some. To see why, in the past 12 months the federal deficit increased by $1.3 trillion. Yet we only got half that in GDP -- about $600 billion. In other words, everything else shrank.

It's even worse for that brave and stunning Q4 -- there we got just $300 billion in extra GDP for -- wait for it -- $834 billion of new federal debt. Remember that GDP isn't measuring wealth, it's measuring spending -- production which is sold. As Megan McArdle put it, GDP “counts the dollar value of our output, but not the actual improvement in our lives, or even in our economic condition."

For example, if you dig holes and fill them, it’s GDP. In fact, you could build a missile, blow up the Golden Gate bridge and every house within 5 miles of it, and it shows up as GDP. The missile cost money after all, and the government paid for it. Of course, mainstream media -- indeed, mainstream economics -- pretends that GDP is identical to wealth in articles celebrating GDP as prosperity.

That's close enough when it's private firms or individuals producing more to sell more — in that case, rising GDP means the country is getting richer. Because more stuff is being produced. But it's actually the opposite when it's government spending. Because the government’s job is taking wealth and lighting it on fire. That means when GDP is growing from government spending it's not measuring wealth. It's measuring dissipation of wealth at best, destruction of wealth at worst.

Essentially, the pace at which we're going Soviet, replacing private wealth with government waste. So translating that brave and stunning GDP into the real world, we're destroying wealth at rates not seen since 2008. This actually lines up with what we've seen in jobs - over half the jobs last year were actually government and government related social service jobs. In some states it was literally more than all the jobs created -- in other words, the private sector is shrinking.

All these government jobs, of course, are unproductive -- they're not making us more prosperous as a society. On the contrary, they're taking wealth earned from productive activities and squandering them on vote-buying or worse - think of the wealth-destruction contained in a single EPA bureaucrat. The media will keep playing along with the government statisticians and the gaslighting academics. They'll keep trashing strapped Americans for posting their grocery bills and mortgage payments, praying they can maintain the illusion long enough for the next election. Fortunately, there seems to be millions who can see the emperor has no cloths.[4]

Footnotes And Sources

1. CNBC.com, January 29, 2024
2. The Wall Street Journal, January 31, 2024
3. CNBC.com, February 2, 2024
4. https://www.fxstreet.com/analysis/27-trillion-buys-spectacular-gdp-202401301650

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