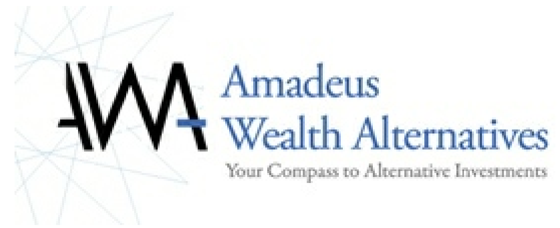
Amadeus Wealth Alternatives 1345 Ave. of the Americas 2nd Fl., New York, NY 10105 www.amadeuswealth.com



212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Stocks sink on rate hike talk.

Weekly Economic Update

Presented by Ed Papier, January 24, 2022

THE WEEK ON WALL STREET

Stocks extended their January retreat as worries over inflation and rising bond yields continued to exert downward pressure on prices.

The Dow Jones Industrial Average slid 4.58%, while the Standard & Poor's 500 sank 5.68%. The Nasdaq Composite index dropped 7.55% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slipped 0.61%.[1,2,3]

ANOTHER TURBULENT WEEK

After the holiday weekend, stocks found little respite from this month's selling pressures. The week began with the 10-year Treasury yield hitting a two-year high that triggered a broad retreat in stocks, with technology and other high-growth companies bearing the brunt of the losses. The Nasdaq Composite officially entered correction territory and closed below its 200-day moving average for the first time since April 2020.[4]

Stocks struggled throughout the week, rallying in early trading on both Wednesday and Thursday on solid corporate earnings and stabilizing bond yields, only to end lower on late-day selling. While last year may have been distinguished by "buying on the dip," this week reflected a different mindset, "selling on the rebound." Stocks extended their losses in the final hours of the Friday trading session to conclude a difficult week.

RATE HIKE EXPECTATIONS RISE

Recent market volatility has stemmed predominantly from inflation concerns and how aggressive the Fed will be in fighting it. This reaction reflects the market's pricing of rate hike probabilities, and their estimation of the Fed's reaction.

Last week's interest rate futures suggested that investors expect four or five rate hikes this year, up

from three to four the previous week. Markets are pricing a 32% probability of 4-5 rate hikes by December and a nearly 28% probability of 5-6 rate hikes by year-end. Of course, the Fed will act independently of the market, but it provides insight into the recent run-up in yields and continuing pressure on high-growth stock valuations.[5,6]

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Purchasing Managers' Index (PMI) Composite Flash.

Tuesday: Consumer Confidence.

Wednesday: New Home Sales. FOMC Announcement.

Thursday: Gross Domestic Product (GDP). Durable Goods Orders. Jobless Claims.

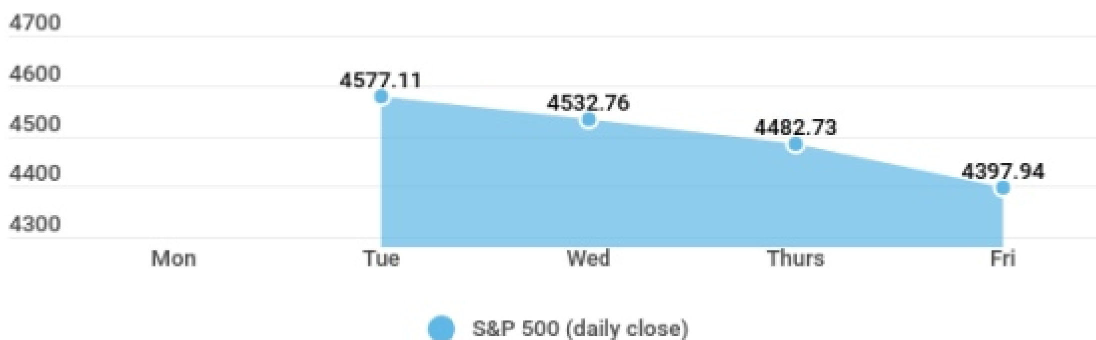
Friday: Consumer Sentiment.

QUOTE OF THE WEEK

"Truth is incontrovertible. Panic may resent it. Ignorance may deride it. Malice may distort it. But there it is"

WINSTON CHURCHILL

Market Index	Close	Week	Y-T-D
DJIA	34,265.37	-4.58%	-5.70%
NASDAQ	13,768.92	-7.55%	-11.99%
MSCI-EAFE	2,318.85	-0.61%	-0.74%
S&P 500	4,397.94	-5.68%	-7.73%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.75%	-0.03%	+0.23%

Sources: The Wall Street Journal, January 21, 2022; Treasury.gov, January 21, 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, January 14, to Friday, January 21, close. Weekly performance for the MSCI-EAFE is measured from Friday, January 14, open to Thursday, January 20, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

"How bad do you think it's gonna be?"

Two years ago, nobody thought to ask the question. Today the president and his team are talking about the strongest economic rebound ever. But their pronouncements are questionnable at best.

First off, the Fed is staring down a problem it can't fix. They've had their "come-to-Jesus moment" and admitted that inflation is real and not going away anytime soon. Reining it in is now their top priority. Their determination is admirable.

The only problem is they can't do it. That's because their only tools are monetary ones, and the current bout of inflation goes well beyond monetary issues. It's a combination of multiple factors including a broken supply chain and a convulsing labor market that has now sparked a trend of rising wages that add to it as well. The only questions are at what point does it finally level off, and can the Fed have any success trying to lower it at all.

And while prices are floating into the stratosphere, let's take a look at the economy. The single biggest driver of the U.S. economic growth is consumer spending. More spending, more sales; more sales, more GDP growth.

Since the stomach-churning swings—between the lockdown crashes in March and April and the stimmy-fueled rebounds in May and June 2020—retail sales have, for lack of a better description, been all over the place. Spikes coinciding with the massive government stimulus have skewed the data making it even more useless than it normally is.

Retail sales for December fell by 1.9 percent month-over-month (holiday shopping season) while on a year-over-year basis (which still contain the stimulus-induced surges) rose 16.9 percent. These are not normal numbers. This is not a normal economy.

Increasing interest rates will likely have a cooling effect on any heat the economy is generating. The big number will come out January 27—the advance GDP estimate for the fourth quarter of 2021. Consensus expectations are currently for a print of 5.8 percent which would come on the heels of a somewhat underwhelming 2.3 percent revision in the third quarter.

Retail sales struggled in the last quarter. And while advanced estimates are often revised, they're rarely substantially higher. Any print that comes out below 3 percent would likely be a huge disappointment to the market.

Blame Delta or Omicron or whatever, but economic growth is very likely overstated. Combine spiking inflation with an economy that's tiptoeing on eggshells and you've got a recipe for something

we haven't seen in over 40 years. Stagflation. As a reminder, stagflation occurs when high inflation happens during a period of stagnant economic growth and high unemployment. It presents a challenge to policymakers because the tools used to combat inflation typically raise unemployment and vice versa. Stagflation is a combination of stagnant economic growth, high unemployment, and high inflation. It's an unnatural situation because inflation is not supposed to occur in a weak economy.

If things continue on the current trajectory, before long we'll be talking about another classic from the 1970s—the Misery Index. And before we get there, start looking at more defensive investing options…from precious metals to industrial metals to commodities.[7] David Rosenberg, former chief economist at Merrill Lynch, recently suggested "What makes the most sense in this era of financial engineering and central bank manipulation is to shift the portfolio to real or tangible assets that spin off a reliable cash flow stream". Among the various alternative categories we highlight at Amadeus, the income producers include private debt, real estate, multi-strategy and some 40 Act private equity.

Ed Papier may be reached at 2126973930 or ep@amadeuswealth.com
www.amadeuswealth.com

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.)

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is 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.

This content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

Copyright 2022 FMG Suite.

CITATIONS:

1. The Wall Street Journal, January 21, 2022
2. The Wall Street Journal, January 21, 2022
3. The Wall Street Journal, January 21, 2022
4. CNBC, January 17, 2022
5. The Wall Street Journal, January 18, 2022
6. CME, January 19, 2022
7. theepochtimes.com/bidens-worst-nightmare-is-your-investment-opportunity_4226333.html