Amadeus Wealth Alternatives 411 Hackensack Ave. Ste. 200, Hackensack, NJ 07601 www.amadeuswealth.com

Amadeus Wealth Alternatives
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212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Stocks rally despite mixed data.

Weekly Economic Update

Presented by Ed Papier, July 11, 2022

THE WEEK ON WALL STREET

In a holiday-shortened trading week, stocks rallied despite mixed economic data and vacillating energy prices and bond yields.

The Dow Jones Industrial Average increased 0.77%, while the Standard & Poor's 500 rose 1.94%. The Nasdaq Composite index picked up 4.56% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, edged 0.46% higher.[1,2,3]

STOCKS MOVE HIGHER

In advance of Friday's much-anticipated employment report, stocks enjoyed successive daily gains despite ongoing concerns about a recession. Recession fears were supported by an inversion in the yield curve and updated second-quarter Gross Domestic Product projections indicating the economy is ready to contract.

Technology shares were the week's big winners as investors appear to have turned to companies with earnings growth potential during a weakening economic environment. Stocks bounced along the flatline following the strong jobs report on Friday to close out a positive week.

EMPLOYMENT'S MIXED SIGNAL

One of the holes in the "imminent-recession" narrative has been the labor market's strength. Historically, recessions have been preceded by or concurrently with a weakening jobs market.

Friday's employment report reflected a job market that continues to belie Wall Street's recession fears. Employers added 372,000 jobs in June, a number that was above economists' estimates of 250,000. Wage gains were robust (+5.1% year-over-year), though still below the inflation rate. The unemployment rate was unchanged at 3.6%.[4]

THE WEEK AHEAD: KEY ECONOMIC DATA

Wednesday: Consumer Price Index (CPI).

Thursday: Producer Price Index (PPI). Jobless Claims.

Friday: Retail Sales. Industrial Production. Consumer Sentiment.

QUOTE OF THE WEEK

"The struggle for freedom is ultimately not resistance to autocrats or oligarchs but resistance to the despotism of public opinion."

Ludwig Von Mises

Market Index	Close	Week	Y-T-D
DJIA	31,338.15	+0.77%	-13.76%
NASDAQ	11,635.31	+4.56%	-25.63%
MSCI-EAFE	1,840.83	+0.46%	-21.20%
S&P 500	3,899.38	+1.94%	-18.19%

	Treasury	Close	Week	Y-T-D
🇺🇸	10-Year Note	3.09%	+0.21%	+1.57%

Sources: The Wall Street Journal, July 8, 2022; Treasury.gov, July 8, 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, July 1, to Friday, July 8, close. Weekly performance for the MSCI-EAFE is measured from Friday, July 1, open to Thursday, July 7, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

An *"economic hurricane"* is coming. That ominous warning comes from Jamie Dimon, CEO of J.P. Morgan Chase. *"I said there were storm clouds. But I'm going to change it. It's a hurricane. Right now it's kind of sunny, things are doing fine, and everyone thinks the Fed can handle it. That hurricane is right out there down the road coming our way. We don't know if it's a minor one or Superstorm Sandy. You better brace yourself."*

Of course, he isn't the only CEO feeling this way. The most recent CEO Confidence Index suggests that most leaders are concerned about the economy over the next few quarters.

Adding to that, the NFIB Small Business Survey also suggests that the economic backdrop is deteriorating rapidly. The number of firms expecting an economic improvement over the next 6-months plunged to the lowest reading ever.

So, is Jamie Dimon being hyperbolic, or is there a genuine concern for an economic hurricane? Dimon's two primary concerns about the economy are valid – the risk of a Fed policy mistake and the war between Russia and Ukraine.

An honest review of history shows the Fed is consistently a *"day late and a dollar short"* regarding monetary policy. The history of *"financial accidents"* due to the Fed's monetary intervention schemes is evident. Not just over the last decade, but since the Fed became *"active"* in 1980.

What should be evident is that before the Fed became active, economic growth was accelerating. There were few crisis events, and economic prosperity was broad. However, post-1980, the trend of economic growth declined. There are many reasons leading up to each event. However, the common denominator is the Fed tightening monetary policy. Notably, Fed rate hiking campaigns correlate with poor financial market outcomes, as higher rates impacted the credit and leverage markets.

When the Fed reduced its balance sheet in 2018, it ran at a pace of $30 billion monthly with very low inflation. Starting in June, the Fed will be ramping up that reduction to 3-times the previous run rate, with inflation at nearly 9%. However, while they believe they can achieve this reduction without disrupting the equity markets or causing an economic contraction, history suggests otherwise.

Between soaring inflation, falling wages, slowing economic growth, and a Fed bent on tightening monetary policy, there is a storm on the horizon. The magnitude, timing, and location of the *"economic hurricane"* are still anyone's best guess.
All we can do is prepare for the storm and then cross our fingers and hope for the best. The guidelines are simplistic but ultimately effective.

1. *Raise cash levels in portfolios*
2. *Reduce equity risk, particularly in high beta growth areas.*
3. *Decrease the duration of bond allocations – duration measures a bond's price sensitivity to interest rate changes. In general, the higher the duration, the more a bond's price will drop as interest rates rise.*
4. *Increase exposure to non-correlated alternative investments – the so called "endowment model" of investing.*

If the hurricane hits, preparing for the storm in advance will allow you to survive the impact. It is a relatively straightforward process to reallocate funds to equity risk if it doesn't. Given the numerous shocks to the system happening concurrently, investors will need more than just an umbrella to survive it.[5]

Know someone who could use information like this?

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

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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.

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CITATIONS:

1. The Wall Street Journal, July 8, 2022
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4. CNBC, July 8, 2022
5. advisorperspectives.com/commentaries/2022/06/21/economic-hurricane-hyperbole-or-real-possibility?topic=alternative-investments