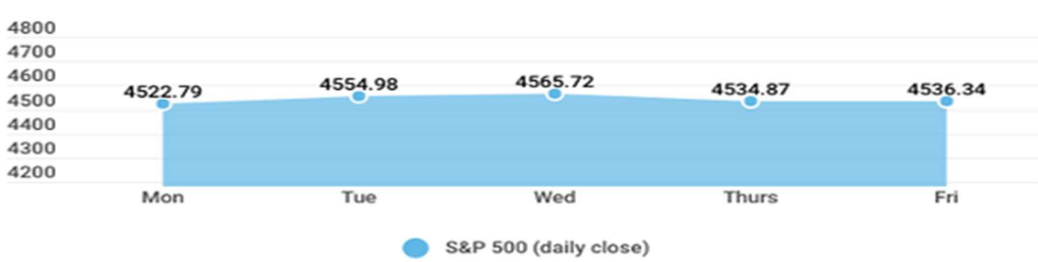
WEEKLY ECONOMIC UPDATE JULY 24, 2023

Stocks moved to the rhythm of earnings season last week, initially rising on positive earnings surprises and faltering later in the week on key earnings disappointments.

The Dow Jones Industrial Average rose 2.08%, while the Standard & Poor's 500 added 0.69%. The Nasdaq Composite Index slumped 0.57% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slipped 0.32%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	35,227.69	+2.08%	+6.28%
NASDAQ	14,032.81	-0.57%	+34.07%
MSCI-EAFE	2,181.93	-0.32%	+12.24%
S&P 500	4,536.34	+0.69%	+18.15%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.84%	+0.01%	-0.04%

Sources: The Wall Street Journal, July 21, 2023; Treasury.gov, July 21, 2023
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 14, to Friday, July 21 close. Weekly performance for the MSCI-EAFE is measured from Friday, July 14, open to Thursday, July 20 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Earnings in Focus

Entering its first big week of the second quarter earnings season, solid reports from the nation's big banks rewarded investor optimism, sparking a rally that continued into mid-week. An announcement by a mega-cap tech company of a new AI subscription plan, and stabilizing deposits at several regional banks, further fed investor enthusiasm.

Disappointing earnings from two big-tech names dragged market indices lower on Thursday, with the largest losses in the Nasdaq composite. Despite the reversal, 20 stocks in the S&P 500 touched 52-week highs on Thursday, with 11 reaching all-time highs.[4]

Stocks closed flat to end an otherwise mixed week.

Housing Hits a Bump

June housing reports reminded investors that any emerging housing recovery remains shaky. After a massive 21.7% jump in housing starts in May, new home construction tumbled 8.0% in June, with building permits (an indicator of future home construction) dropping 3.7%.[5]

Sales of existing homes were also lower in June, declining by 3.3%, owing to a persistently low inventory level. This was the slowest pace since January. Year-over-year sales were lower by 18.9%. One reason for low inventory is that homeowners have been reluctant to sell homes on which many have a historically low mortgage rate and face buying a new home at elevated prices with a much higher mortgage interest rate.[6]

This Week: Key Economic Data

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

Tuesday: Consumer Confidence.

Wednesday: FOMC Announcement. New Home Sales.

Thursday: Gross Domestic Product. Durable Goods Orders. Jobless Claims.

Friday: Personal Income and Outlays.

Quote of the Week

"What characterizes American government today is not so much dysfunctional politics as it is ruthlessly contrived governance carried out behind the entertaining, distracting and disingenuous curtain of political theater"

– John Whitehead

Of Note

As the latest debt-ceiling drama winds down, Americans are varyingly exasperated, angered, anxious and maybe even a little bit entertained by the spectacle. While their emotions vary, most citizens have something in common: They don’t realize they’re being misled about the actual depth of their government’s financial disorder. Despite all the talk of the federal government hitting a Congressionally-set $31.4 trillion debt limit, the truth is that DC’s actual liabilities are far higher than even that disturbing number.

Estimates by the relatively few scholars and organizations who venture to expose Washington’s charade vary, but they overwhelmingly place the federal government’s true total obligations at over $100 trillion. For example, Truth In Accounting’s latest tally puts Uncle Sam’s total IOUs at $156 trillion.

The frequently-mentioned $31 trillion “national debt” figure only encompasses Treasury borrowing in the form of bills, notes and bonds. Critically, it doesn’t include unfunded liabilities. That’s the term for financial promises the government has made without having money set aside to fulfill them.

America’s unfunded liabilities span three main categories of promised future benefits:

• Federal employee and military veteran pensions and benefits.
• Social Security retirement income and disability insurance
• Medicare benefits

Calculations of the present value of unfunded liabilities vary, because they require assumptions about variables including future interest rates, life expectancies and the cost of health care. Each year, the Treasury produces a mammoth report summarizing the federal government’s financial situation. While the Treasury presents the national debt as it’s commonly understood, and separately presents its own calculation of unfunded liabilities of Social Security, Medicare and similar programs, nowhere in 258 pages does the department combine those numbers and present the hideous $100-trillion-plus total.

The absence of that grand total is no oversight: Letting citizens see the stark reality of the government’s financial condition simply isn’t in the interest of our rulers, whether they’re on the blue team or the red one.

Counting only Treasury borrowing, the federal government’s $31 trillion debt equates to 117% of the country’s $26.5 trillion gross domestic product, a figure that approximates the country’s annual economic production. That’s alarming enough, but if we use Truth in Accounting’s numbers, the total is a jarring 589% of GDP. Providing a more relatable perspective, the Chicago-based watchdog group says the “true national debt” comes out to $933,000 per taxpayer.

The federal government’s path to financial calamity is hardwired into the budget process, as so-called “mandatory spending” on programs like Social Security, Medicare and Medicaid now represent a whopping 71% of the US budget, more than double their share in 1965. Meanwhile, interest payments alone are consuming ever-higher shares of federal revenues:

There’s good reason why the government chooses not to inform citizens about the true national debt. After all, if more Americans grasped the full scope of Washington’s fiscal insanity, they would:

• Understand that promised Social Security and Medicare benefits are unsustainable — particularly for the youngest Americans, who are currently compelled to fund benefits for older Americans in a coercive Ponzi scheme.
• Be less likely to support costly foreign interventionism, to include the more than $113 billion already spent on the proxy war against Russia in Ukraine — more Americans would question the premise that their security is impacted by who controls Ukraine’s heavily ethnic-Russian Donbas region.

• Toss aside the rose-colored glasses through which they view big-spending proposals, like last summer’s 4375 billion package to fund a crony-enriching and quixotic battle against climate change.
• Apply greater scrutiny to military spending, with more people questioning why the Pentagon should spend more than $7.3 trillion over the next 10 years — more than it spent in the decade that encompassed the peak of US warfare in Iraq and Afghanistan.[7]

Footnotes and Sources

1. The Wall Street Journal, July 21, 2023.
2. The Wall Street Journal, July 21, 2023.
3. The Wall Street Journal, July 21, 2023.
4. CNBC, July 20, 2023.
5. Yahoo!Finance, July 19, 2023.
6. The Wall Street Journal, July 20, 2023.
7. starkrealities.substack.com/p/debt-ceiling-theater-masks-true-depth

Please consult your financial professional for additional information.