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

Amadeus Wealth Alternatives
Your Compass to Alternative Investments

212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

*In this week's recap: Stocks open week on big highs, but end with small losses due to Delta concerns and a lower GDP.*

# Weekly Economic Update

*Presented by Ed Papier, August 2, 2021*

## THE WEEK ON WALL STREET

The stock market posted small losses last week despite a very strong showing by corporate America. The Dow Jones Industrial Average slipped 0.36%, while the Standard & Poor's 500 lost 0.37%. The Nasdaq Composite index dropped 1.11% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, jumped 1.51%. [1,2,3]

## STOCKS TAKE A BREATHER

There were plenty of excuses for stocks to retreat last week. News of a new phase in Chinese regulators' crackdown on large, private-sector companies, a decline in new home sales, and concerns about the Delta variant weighed on investors.

After opening the week adding to record highs, stocks turned lower despite an earnings season that continued to impress.

Solid earnings from the mega-cap technology companies were not enough to propel stocks higher. Instead, stocks slipped throughout the week, fighting uncertainty over Chinese stocks, a disappointing second-quarter Gross Domestic Product number, and a retreat in technology shares they reset to fresh company guidance.

## CHINESE CRACKDOWN

Chinese technology stocks were under pressure last week as Chinese regulators continued their push to rein in large companies for reasons that include data security, abusive corporate behavior, financial stability, and curtailing private-sector power.

Chinese government actions raised new levels of concerns about which industries may next fall in the crosshairs of regulators. American investors have plenty of exposure to Chinese companies. Substantial losses were felt by mutual funds and hedge funds, which account for about 86% of the holdings in the over 200 U.S.-listed Chinese companies whose aggregate market capitalization exceeds $2 trillion. [4]

## THE WEEK AHEAD: KEY ECONOMIC DATA

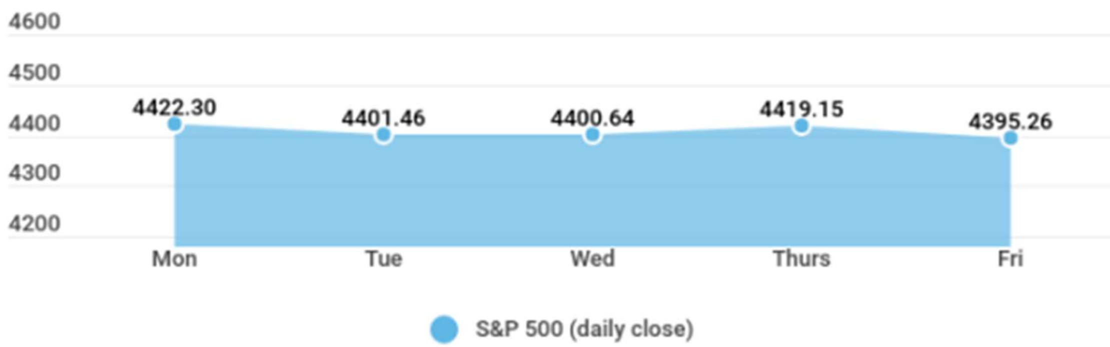
Monday: ISM (Institute for Supply Management) Manufacturing Index.
Tuesday: Factory Orders.
Wednesday: ADP (Automated Data Processing) Employment Report. ISM (Institute for Supply Management) Services Index.
Thursday: Jobless Claims.
Friday: Employment Situation Report.

### QUOTE OF THE WEEK

*"Just because we learn something about ourselves, doesn't mean we can always do something with the information"*

*Dr. LORETTA WADE, NCIS*

| Market Index | Close | Week | Y-T-D |
| --- | --- | --- | --- |
| DJIA | 34,935.47 | -0.36% | +14.14% |
| NASDAQ | 14,672.68 | -1.11% | +13.85% |
| MSCI-EAFE | 2,341.81 | +1.51% | +9.05% |
| S&P 500 | 4,395.26 | -0.37% | +17.02% |




| | Treasury | Close | Week | Y-T-D |
| --- | --- | --- | --- | --- |
| | 10-Year Note | 1.24% | -0.06% | +0.31% |

Sources: The Wall Street Journal, July 30, 2021; Treasury.gov, July 30, 2021
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 23, to Friday, July 30, close. Weekly performance for the MSCI-EAFE is measured from Friday, July 23, open to Thursday, July 29, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

## OF NOTE

US inflation as measured by the Consumer Price Index and others continues to surge at rates we haven't seen in decades. For June, the CPI soared to the highest annual rate we've seen in 13 years and was above economists' consensus expectation for the third month in a row. And the CPI is expected to be hot again for July.

The Federal Reserve has been assuring us that the latest spike in inflation is temporary, and prices should subside later this year and in 2022. According to the Fed this rise should be only a transitory jump in inflation which has been fueled primarily by a relatively few big-ticket items rising sharply in price in recent months, which are likely to normalize in the months ahead.

Yet as higher than expected inflation readings come out month after month, consumers are increasingly coming to question the Fed's assurances about this being only a temporary jump in inflation, perhaps for good reasons.

Are the primary causes of the latest spike in inflation temporary, as the Fed argues, or more structural and long-term, as more economists are concluding? The answer could significantly affect our saving and investment strategies.

The Commerce Department reported the CPI jumped to an annual rate of 5.4% in June, the highest level since August 2008. The prices for airline fares, rental cars, hotels, entertainment, recreation, apparel and more rose sharply in June. "Core" CPI (minus volatile food and energy components) rose at an annual rate of 4.5% last month, the highest reading in 30 years. Both figures were once again well above most economists' pre-report expectations.

Inflation has been escalating due to several factors, including pandemic-related supply-chain bottlenecks, extraordinarily high demand as the Covid-19 crisis eases and year-over-year comparisons to a time when the economy was struggling to reopen in the early months of the crisis. Add to those the fact that prices of several big-ticket items have literally exploded.

Rising prices reflect robust consumer demand boosted the ending of many business restrictions, trillions of dollars in federal pandemic relief and ample household savings. Stronger demand also has pushed employers to seek more workers and pay higher wages, as they struggle to hire more employees.

While many forecasters and the financial media seemed to buy into the *transitory* theory earlier this year, it is clear from the grilling Powell took in Congress last week that such confidence is waning. There is growing uncertainty as to whether the Fed really knows what it's doing.
The *transitory* theory holds that prices have risen significantly for many consumer goods due mainly to COVID-19 related effects on the economy, such as widespread shutdowns, some of which are gradually disappearing. In theory, the shortages of these items should end as soon as the economy catches back up.

While the *transitory* camp has its views, the *non-transitory* crowd has a different take. Most in the *non-transitory* camp believe today's much higher inflation rates are here to stay. They believe the economic forces which drove prices to where they are today are largely permanent/structural and are not likely to decline much in the months ahead.

Many in this camp also believe US inflation is destined to go even higher later this year and next. Some in this group are convinced we'll see CPI inflation of up to 10% or more before this cycle is over. They point to the fact that the Fed has pumped an unprecedented $8 trillion of stimulus into the economy in the last year or so and argue this money will result in continued higher consumer prices. Ditto for huge government stimulus spending.

Many with the *non-transitory* view fall into the *"gloom-and-doom"* crowd, which has been warning of hyperinflation for decades. They maintain this view despite the fact that we've been in a generally disinflationary environment since the 1980s.

At the end of the day, we have two widely different views on where the economy (and of course, the markets) are going in the next few years. The *transitory* crowd, led by Fed Chair Jerome Powell, believes the sharp price increases and inflation we've seen this year are only temporary and that prices will come back to normal in the next year. The *non-transitory* crowd, on the other hand, believes the inflationary forces unleashed this year are here to stay and are likely to get even worse, perhaps creating inflation as high as 10%.

A final and related caveat: Our out-of-control national debt is going to catch-up with us at some point, probably when the world decides it can no longer trust the US to repay its debts in full. Whenever that happens, all bets are off. [5]

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

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CITATIONS:

1. The Wall Street Journal, July 30, 2021
2. The Wall Street Journal, July 30, 2021
3. The Wall Street Journal, July 30, 2021
4. Yahoo Finance, January 7, 2021
5. advisorperspectives.com/commentaries/2021/07/21/spiking-u-s-inflation-is-it-really-temporary?topic=alternative-investments