Amadeus Wealth Alternatives
Your Compass to Alternative Investments

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Weekly Economic Update March 13, 2023

Stocks tumbled last week as investors reconsidered their interest rate expectations after Fed Chair Powell's Congressional testimony that rates may need to go higher. Stocks also were rattled when a west coast bank was placed into receivership on Friday following a run on deposits.

The Dow Jones Industrial Average dropped 4.44%, while the Standard & Poor's 500 lost 4.55%. The Nasdaq Composite index fell 4.71% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slipped 0.37%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	31,909.64	-4.44%	-3.73
NASDAQ	11,138.89	-4.71%	+6.42%
MSCI-EAFE	2,062.92	-0.37%	+6.12%
S&P 500	3,861.59	-4.55%	+0.58%

	Treasury	Close	Week	Y-T-D
	10-Year Note	3.70%	-0.27%	-0.18%

Sources: The Wall Street Journal, March 10, 2023; Treasury.gov, March 10, 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, March 3, to Friday, March 10, close. Weekly performance for the MSCI-EAFE is measured from Friday, March 3, open to Thursday, March 9, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Rate Fears, Bank Scare

Congressional testimony on Tuesday by Fed Chair Jerome Powell that interest rates may require a higher increase faster than planned unnerved investors, dimming the hopes of any pause in rate hikes this summer. After stabilizing the following day, stocks trended lower as the financial sector came under pressure. The lower move was triggered by a specialty bank's liquidity issues, though regional and money center banks could not escape the selling.

Labor market strength in a Friday report exacerbated rate-hike anxieties, though cooling wage gains balanced an above-consensus new jobs number. Markets appeared to take the employment report in stride but fell on worries arising from the shutdown of a tech-centric bank.[4]

Powell’s Congressional Testimony

Fed Chair Powell last week testified on Capitol Hill during which he acknowledged that the economy was running hotter than he had expected. He said that labor market strength and stubbornly elevated inflation may require the Fed to raise rates quicker than anticipated and above levels previously contemplated.

The market did not respond well to Powell’s change of tone. Many now see the potential of a 0.50% rate hike coming out of the Federal Open Market Committee’s (FOMC) March 21-22 meeting instead of the expected increase of 0.25%. Powell did say that the FOMC would consider the monthly employment report released last Friday and upcoming inflation reports before arriving at a decision.

This Week: Key Economic Data

Tuesday: Consumer Price Index (CPI).

Wednesday: Producer Price Index (PPI). Retail Sales.

Thursday: Jobless Claims. Housing Starts.

Friday: Industrial Production. Consumer Sentiment. Index of Leading Economic Indicators.

Quote of the Week

"[Central banks] represent the prostitution of our government for the advancement of the few at the expense of the many."

– Andrew Jackson 1832

Of Note

It's sad and laughable, unreal, but not surprising; it didn't make headlines but should have been front page news. Last month the Federal Reserve released a one-page document called the Statement on Longer-Run Goals and Monetary Policy Strategy.

Deception is easy to spot when the most basic inquiry illuminates falsehoods being implemented as monetary policy. We deserve better. Here are some of the most egregious ideas:

… following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

This absolves the Fed of the current “high” (price) inflation we’re seeing. Since inflation data was low for a relatively long time, higher inflation (i.e. currency debasement) is acceptable because it allows the Fed to achieve a long-run inflation equilibrium, close to their arbitrary 2% figure.

Since it’s their job to intervene in the market, we mustn’t ever think they’ll acknowledge the issues with intervention:

Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Monetary policy plays an important role in stabilizing the economy in response to these disturbances.

The definitions of stabilizing and financial disturbances are seldom elaborated; but apparently monetary policy is supposed to smooth out any alleged problems in the economy.

However, by expanding/decreasing the money supply, or raising/decreasing interest rates, literally at will, the Fed causes the very distortion it claims to be combating. In more extreme worldwide or historical cases, central banks are at the heart of currency collapse. It’s unfathomable to think a central bank could ever “fight inflation,” since they notoriously abhor deflation:

They are also fixated on reaching maximum employment as part of their mandate. But here’s the problem:

The maximum level of employment is a broad based and inclusive goal that is not directly measurable and changes over time owing largely to non-monetary factors that affect the structure and dynamics of the labor market.

Reiterating:

Consequently, it would not be appropriate to specify a fixed goal for employment…

For an organization claiming to be data driven, it’s a little odd that one of their primary stated objectives cannot be articulated nor measured. Making matters more peculiar, they maintain that their untenable 2%

inflation target is linked to their immeasurable employment target, as stated:

The Committee's employment and inflation objectives are generally complementary.

Yet as discussed in The Phillips Curve: Read the Fine Print, the St. Louis Fed's 'Cloud of Points', shows no correlation between prices and employment in the last 50 years.

The Phillips Curve should have been abandoned many decades ago. The above statement that employment and inflation are complementary is simply a lie.

Every five years they undertake a "thorough public review" of their monetary policy. It's these incomplete theories, the subterfuge, the subtle deception, masquerading as well-vetted policies that should publicly discredit the Federal Reserve.

Their economic policies have a gross disregard for economics. They cannot define many of their terms, defend their rationale, nor has history ever shown the Fed's usefulness. In a free market, prices will fluctuate for countless reasons. But the long-term trend would be a decrease in prices over time, whereas with a central bank, prices will only follow an upwards trajectory until hyperinflation sets in.

Fed policies are first and foremost pro-inflation for the purpose of helping a handful of institutions and wealthy people. Thanks to the Fed, there will never be any kind of market stability or economic enhancement. Rather, there will only be instability and economic destruction. This is the way of central banking.[5]

Footnotes and Sources

1. The Wall Street Journal, March 10, 2023

2. The Wall Street Journal, March 10, 2023

3. The Wall Street Journal, March 10, 2023

4. The Wall Street Journal, March 10, 2023

5. mises.org/power-market/federal-reserve-and-terrible-horrible-no-good-very-bad-economic-policy

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.

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