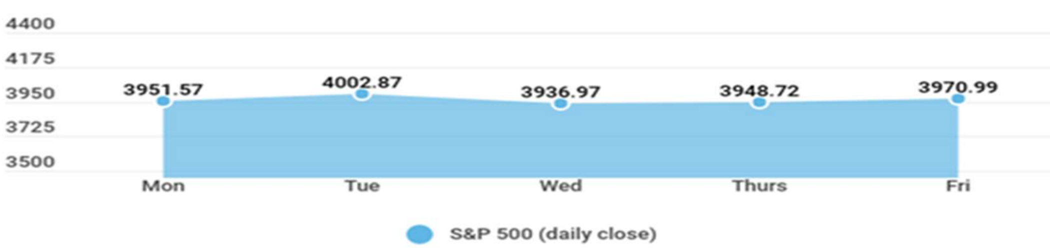
Amadeus Wealth Alternatives
Your Compass to Alternative Investments

Weekly Economic Update March 27, 2023

Modest gains in major market indices masked sharp volatility amid the uncertainty arising from mixed messages emanating from public officials and revived banking fears.

The Dow Jones Industrial Average gained 1.18%, while the Standard & Poor's 500 added 1.39%. The Nasdaq Composite index rose 1.66% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, advanced by 3.29%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	32,237.53	+1.18%	-2.74%
NASDAQ	11,823.96	+1.66%	+12.97%
MSCI-EAFE	2,052.04	+3.29%	+5.56%
S&P 500	3,970.99	+1.39%	+3.42%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.38%	+0.00%	-0.50%

Sources: The Wall Street Journal, March 24, 2023; Treasury.gov, March 24, 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 17, to Friday, March 24, close. Weekly performance for the MSCI-EAFE is measured from Friday, March 17, open to Thursday, March 23, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

A Turbulent Week for Stocks

The stock market was unable to find sustained direction as investors weighed comments from Fed Chair Jerome Powell and Treasury Secretary Janet Yellen. Stocks initially rose as banking fears eased following a deal to acquire a troubled Swiss bank. Optimism was further fueled by Yellen, who said the government could intervene to protect depositors if more bank issues materialized.

Enthusiasm faded, however, when Yellen subsequently testified that the Treasury was not working on any blanket insurance for bank deposits and by the Fed's warning that banking turmoil could shrink lending access — the volatile week ended with sharp intraday price swings, shrugging off revived European banking concerns.

Rate Hike Cycle Ending?

Last week, the Federal Open Market Committee (FOMC) meeting was particularly noteworthy. Fed officials were placed in the difficult position of balancing the banking system's opposing risks of still-high inflation and stressors. The Committee had considered leaving rates unchanged given banking stressors but unanimously voted to raise rates by 0.25%, citing elevated inflation, resilient economic activity, and a strong labor market.[4]

The official announcement hinted that the Fed might soon be done with raising rates while also stating it was too early to ascertain the degree to which the economy could slow from the current banking strains.[5]

This Week: Key Economic Data

Tuesday: Consumer Confidence.

Thursday: Jobless Claims. Gross Domestic Product (GDP).

Friday: Personal Income and Outlays. Consumer Sentiment.

Quote of the Week

"The best way to keep a prisoner from escaping is to make sure he never knows he's in prison."

– Fyodor Dostoyevsky

Of Note

Despite a penchant for double-speak that would make a politician blush, the Fed tells us that its primary focus is unemployment not inflation. Be reminded that an openly nervous Mr. Powell came out in the summer of 2020 with a specific, as well as headline-making, agenda to “allow” higher inflation above the 2% rate. This “new inflation direction” ignored the larger irony that the Fed had been unsuccessfully “targeting” 2% inflation for years before changing verbs from “targeting” to “allowing.”

Such magical word choices reveal a critical skunk in the Fed’s semantic wood pile. If, for example, the Fed was honestly “targeting” inflation to no success for years, how could Powell suddenly have the public ability to then “allow” more of what he failed to achieve before, as if inflation was as simple to dial up and down as a thermostat in one’s home?

The blunt answer is that the Fed, in sync with the fiction writers at the Bureau of Labor Statistics (BLS), reports consumer inflation as honestly as Al Capone reported taxable income. In short: The Fed has been lying about (i.e. downplaying) inflation for years. The Consumer Price Index (CPI) scale used by the BLS to measure U.S. consumer price inflation is an open charade, allowing the BLS, and hence the Fed, to basically “report” inflation however they see fit—at least for now. If, for example, the weighting methodologies hitherto used by the Fed to measure CPI inflation in the 1980’s were used today, then US, CPI-measured inflation would be closer to 10%.

Concerned about rising consumer costs, the Fed simply tweaked its CPI scale for measuring the same, effectively downplaying rising costs like a fat-camp scale which downplayed the significance of say… beer, chocolate or pizza. In short, the Fed didn’t like the old CPI scale for measuring inflation, and so they simply replaced it with one in which 2+2 =2. But why all the mathematical gymnastics and creative writing at the current BLS and Fed? What explains the ongoing double-speak wherein the Fed wishes to target higher inflation yet simultaneously and deliberately mis-reports it at far lower levels?

The Fed, in deep need of keeping its IOU-driven (i.e debt-driven) façade of “recovery” in motion, has no choice but to invent a respectably controlled (i.e. LOW) CPI inflation rate in order to make US Treasury bonds look even moderately attractive to others. After all, the US lives on those IOU's. They need to look pretty. If, however, the more honest and much higher 10% inflation rate were honestly reported on an honest CPI scale, the inflation-adjusted yield on the US 10-Year Treasury would be negative 8% – which hardly makes it a pretty bond for the world to either admire or buy. That's a problem for Uncle Sam.

So, please don't fall for Powell's double-speak that he's more concerned about focusing on employment than inflation. The unspoken truth is that Powell (as well as Yellen, Bernanke et al) have been absolutely obsessed with inflation for years. They simply mis-report it (i.e. lie), as the dollar's purchasing power continues its slow fall toward the floor of history.

What the Fed has been doing ever since Greenspan (the veritable "Patient Zero" of the current global $280T debt disaster) is very clever yet extremely toxic, as well as openly duplicitous. Specifically, the Fed now prints over $120B per month (to buy $80B in unwanted Treasury bonds and another $40B in unwanted, toxic MBS paper) with no apparent inflationary effect (despite the fact that inflation is defined by money supply) beyond its 2% "allowance."

Such extreme money creation openly dilutes the USD to inflate away US debt with increasingly diluted dollars, now a desperate as well as deliberate Fed policy. But by simultaneously and dishonestly mis-reporting CPI inflation as they dilute the dollar, the Fed can inflate away US debt without having to make the inflation-adjusted yields on Treasury bonds appear too embarrassingly ugly (i.e. grotesquely negative) for circulation and consumption. Such open fraud, of course, allows the Fed to have its cake (debased currencies to inflate away debt) and eat it too (by under-reporting the otherwise disastrous CPI inflationary consequences of such a desperate policy.) In short, by putting lipstick on the pig of what would otherwise be highly negative real yields on openly bogus Treasury bonds if the CPI inflation rate were accurately reported, the Fed can continue to live on more debt, more IOU's and more dishonesty.

Perhaps you've noticed that the bond market, despite all of Uncle Fed's (and Uncle Sam's) support, has been unhappy of late…bond prices are falling, and hence yields are slowly rising, yet again. Needless to say, the Fed (sitting on top of $30T in public debt) doesn't like rising yields, as they force rising rates, and rising rates, which reflect the cost of money, scares the heck out of debt-soaked markets (and debt-soaked sovereigns) like those currently pretending "recovery" in the land of the free (but not free markets). Thus, as in the repo markets of late 2019, the Fed is slowly losing control of the narrative as well as the bond market, which means we can expect more money printing to buy those otherwise Frankenstein bonds in order to keep their yields down (or "controlled")—the very definition of Yield Curve Control, or "YCC."

But such yield (and hence interest rate) control is a dangerous game of Russian roulette. The Fed may play for a while, but eventually there's a natural market and a currency-killing bullet aimed at its head.

That is, the only way to postpone a fatal rate spike is for the Fed to print more fiat dollars to buy more unwanted bond debt. By extension then, the only way to keep bond and debt-soaked markets alive is to destroy the nation's underlying currency by "over-printing" the same. In short, the inflated markets may live under a YCC blade, but the currencies, well…they die by the same sword. That of course, is having your cake, but not eating it…

This is almost all comical, if it was not otherwise so tragic. Why? Because the entire inflation-deflation discussion, as well as data reports and projections, are ultimately meaningless if the very scale used to measure the CPI inflation is itself as bogus as a 42nd Street Rolex. And so, let the madness continue, let the creative writing, clever math and the equally distortive projections and pundits spin their tales about inflation "data" as we simply stare at the rising costs of health care, education, housing, stock and bond valuations or even the tolls on the George Washington Bridge. In other words, if you want to see honest inflation, just walk out your front door—it's everywhere, except that is, in the open joke that is the CPI inflation scale.

Meanwhile, of course, the Fed's money printing and artificial rate suppression via YCC will continue, as will that Frankenstein otherwise known as the US credit market, so essential to the ongoing survival of that massive bubble otherwise known as the US stock market.[6]

Footnotes and Sources

1. The Wall Street Journal, March 24, 2023
2. The Wall Street Journal, March 24, 2023
3. The Wall Street Journal, March 24, 2023
4. The Wall Street Journal, March 22, 2023
5. The Wall Street Journal, March 22, 2023
6. goldswitzerland.com/the-feds-most-convenient-lie-a-cpi-charade

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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