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In this week's recap: Ukrainian War places new stress on economy.

Weekly Economic Update

Presented by Ed Papier, March 7, 2022

THE WEEK ON WALL STREET

War in Ukraine weighed on stocks as investors assessed the economic impact of continued hostilities, expanding economic sanctions, and potentially higher inflation due to rising oil prices and new stresses on the global supply chain.

The Dow Jones Industrial Average fell 1.30%, while the Standard & Poor's 500 lost 1.27%. The Nasdaq Composite index slid 2.78% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, dropped 3.21%.^{1,2,3}

ANOTHER VOLATILE WEEK

The uncertainty introduced from Russia's invasion continued to whipsaw the financial markets last week. Intensifying hostilities early in the week sent stocks sharply lower as oil prices surged and a flight to safety drove investors to buy bonds.

Stocks rebounded mid-week following the release of positive economic data and Congressional testimony by Fed Chair Jerome Powell, who said the Fed is likely to move forward on rate hikes, but would proceed cautiously. Investor enthusiasm was short-lived, however, as stocks resumed their decline on Thursday into Friday despite a strong employment report.

POWELL TESTIFIES

Fed Chair Powell told Congress on Wednesday that he would propose a 25 basis point increase in the federal funds rate when the Federal Open Market Committee meets in mid-March. He conceded that the invasion of Ukraine and the economic sanctions against Russia introduced a level of uncertainty and that the Fed would proceed carefully with monetary tightening.

Powell also testified that he would not have the Fed's strategy to shrink its balance sheet finalized before the mid-March meeting. Alluding to the urgency of fighting inflation, Powell left the door

open to more aggressive rate hikes later in the year.⁴

THE WEEK AHEAD: KEY ECONOMIC DATA

Wednesday: JOLTS (Job Openings and Labor Turnover Survey)

Thursday: Consumer Price Index. Jobless Claims.

Friday: Consumer Sentiment.

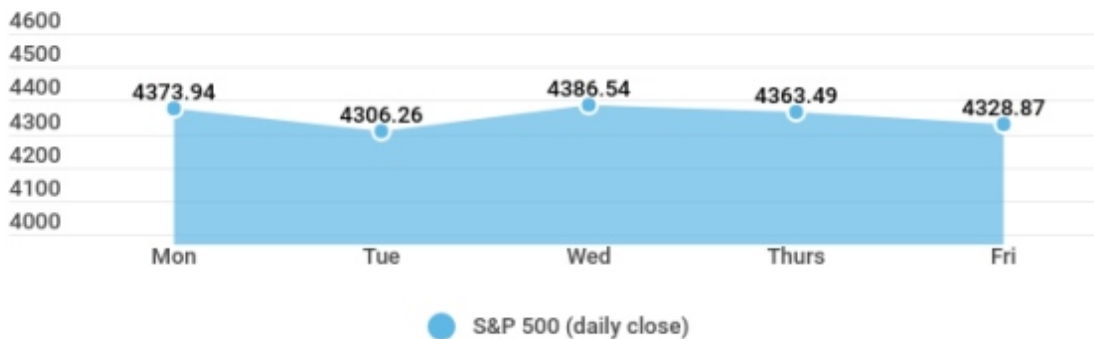
QUOTE OF THE WEEK



*"Anger is a potent spice. A pinch wakes you up,
too much dulls your senses"*

FROM THE QUEEN'S GAMBIT

Market Index	Close	Week	Y-T-D
DJIA	33,614.80	-1.30%	-7.49%
NASDAQ	13,313.44	-2.78%	-14.90%
MSCI-EAFE	2,107.87	-3.21%	-9.77%
S&P 500	4,328.87	-1.27%	-9.18%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.75%	-0.22%	+0.23%

Sources: The Wall Street Journal, March 4, 2022; Treasury.gov, March 4, 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, February 25, to Friday, March 4, close.

OF NOTE

Slow growth. Soaring prices. The U.S. economy – and the global economy – was already facing these disagreeable prospects before Putin invaded Ukraine. But now, with Russian tanks rolling through the boarder, negative supply shocks to the global economy will take things to a whole new level.

The major stock market indexes, for example, had already been slipping and sliding since early January. But now they're beset with panic and fear...and sudden moments of greed. These emotions play out in erratic waves that can be characterized as massive freefalls punctuated by episodic relief rallies.

The initial delight that the potential world war would slow forthcoming Fed rate hikes quickly faded. The reality of it all is much greater than the variance between a 25 or 50 basis point rate hike. The fact is, even with the stock market's decline over the last two months, there's still much, much further to fall.

Consumer prices were already at a 40 year high before this latest bout of war madness was triggered. The obvious immediate effects to the U.S. economy will be from higher oil prices. This past week, a barrel of West Texas Intermediate Crude topped \$112 per barrel. And in the LA Basin, a gallon of regular grade gasoline is over \$5.39. But not so fast...there's not only oil supply shocks to contend with, there are also food supply shock and broken supply chains.

The price of wheat has also spiked up to a 14-year high. This rise has the makings of mass food price inflation. Moreover, the global shipping industry, which was already constrained from two years of the pandemic, is being further disrupted. The bottom line is supply shocks and greater scarcity will further propel consumer prices higher.

With this backdrop, and the burgeoning blowback to financial markets from sanctions against Russia, Federal Reserve Chairman, Jay Powell, addressed Congress last week. These testimonies to the House Financial Services Committee and the Senate Banking Committee only come twice per year. Powell's priorities will be to increase rates enough to reduce inflation, now at a four-decade high, but not so fast as to choke off growth and hiring.

For several weeks – or more – the testimonies were billed as the unveiling of the Fed's policy pivot. The expectation had been for Powell to telegraph a 50-basis point rate hike at the Federal Open Market Committee (FOMC) meeting scheduled for March 15 and 16. This was supposed to kick-off the Fed's great inflation fighting effort.

But then Putin invaded Ukraine and the world suddenly changed. Powell was gifted an excuse to go soft. For Powell, the task at hand this week was twofold. First, demonstrate the central bank would be taking measures to control inflation. Second, show Wall Street the Fed still has its back. So Powell took the middle of the road. He'll be proposing a 25-basis point rate hike at the upcoming FOMC meeting. *"We're going to use our tools, and we're going to get this done,"* said Powell to the Senate Banking Committee. In other words, he's effectively doing nothing to fight inflation.

How is a 25-basis point rate hike supposed to rein in inflation that's officially raging at 7.5 percent? Clearly, Powell's pivot is a pivot to nowhere. High consumer price inflation is here to stay.⁵

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CITATIONS:

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4. The Wall Street Journal, March 2, 2022
5. economicprism.com/powells-pivot-to-nowhere/#more-8029