

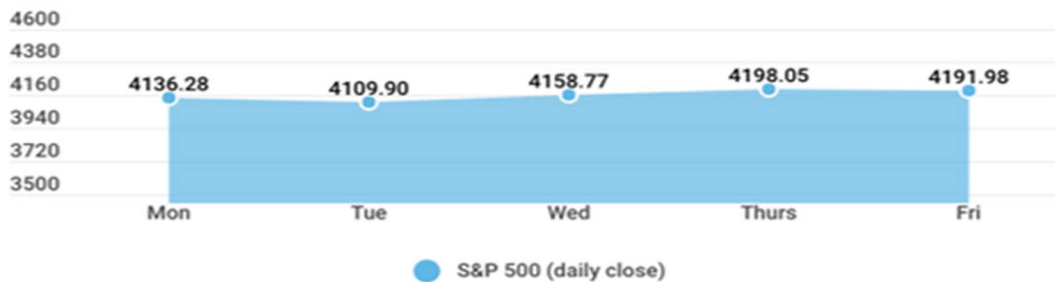
## Weekly Economic Update May 22, 2023

Stocks rallied last week, propelled by growing optimism over reaching a deal on raising the debt ceiling and avoiding a technical debt default by the U.S.

The Dow Jones Industrial Average edged 0.38% higher, while the Standard & Poor's 500 gained 1.65%. The Nasdaq Composite index advanced 3.04% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, lost 0.47%.<sup>1,2,3</sup>



Market Index	Close	Week	Y-T-D
DJIA	33,426.63	+0.38%	+0.84%
NASDAQ	12,657.90	+3.04%	+20.94%
MSCI-EAFE	2,116.28	-0.47%	+8.87%
S&P 500	4,191.98	+1.65%	+9.18%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.70%	+0.23%	-0.18%

Sources: The Wall Street Journal, May 19, 2023; Treasury.gov, May 19, 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, May 12, to Friday, May 19 close. Weekly performance for the MSCI-EAFE is measured from Friday, May 12, open to Thursday, May 18 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

## Possible Debt Deal

After stumbling on weak April retail sales and a combination of disappointing earnings and weak guidance from a major retailer, stocks moved higher mid-week as the news on the debt negotiations turned more positive.

The prospect of an agreement helped to lift a cloud of uncertainty that had weighed on markets in recent weeks and sparked sufficient optimism to shake off comments by the Dallas Fed President, who indicated that economic data may not support a pause in rate hikes yet. Aiding the market's upbeat mood was a positive update on deposit growth at a troubled regional bank.

Stocks surrendered some of the week's gains on Friday following reports of an impasse on debt talks and comments by Fed Chair Powell.

## Housing Mixed

Recent updates have suggested that the housing market may be staging a turnaround after a long period of contraction. Last week's data contained some fresh evidence of revival and caution that any potential recovery may remain further out.

The first positive sign was an increase in home builder sentiment that put the National Association of Home Builders Housing Market Index's confidence level at the midpoint for the first time since July 2022. An unexpected 2.2% rise in housing starts in April followed. These encouraging reports, however, were followed by a disappointing 3.4% decline in April existing home sales.<sup>4, 5, 6</sup>

## This Week: Key Economic Data

**Tuesday:** Purchasing Managers' Index (PMI) Composite. New Home Sales.

**Wednesday:** FOMC Minutes.

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

**Friday:** Consumer Sentiment. Personal Income and Outlays. Durable Goods Orders.

## Quote of the Week



*“Those who would give up essential Liberty, to purchase a little temporary Safety, deserve neither Liberty nor Safety”*

– Benjamin Franklin

## Of Note



While the commercial real estate crisis will come and go, the \$32 trillion in US debt (growing by \$1 trillion every six months) and \$200 trillion in off-balance sheet debt, will stay forever, or at least until the US defaults or hyperinflates.

Stanley Druckenmiller, formerly George Soros' chief strategist who now runs his own family office, recently comments at the USC Marshall School of Business. “The fiscal recklessness of the last decade has been like watching a horror movie unfold”.

In a follow-up email to Bloomberg, he said he hopes the US government doesn't go into default, “but honestly, all this focus on the debt ceiling instead of the future fiscal issue is like sitting on the beach at Santa Monica worrying about whether a 30-foot wave will damage the pier when you know there's a 200-foot tsunami just 10 miles out.”

According to Bloomberg, Druckenmiller's comments are similar to the ones the billionaire investor gave a decade ago during a tour of 14 university campuses, when he encouraged students to pay attention to ballooning federal deficits that he believed - correctly - would bankrupt future generations.

He said at the time that the economic storm spurred by reckless spending could dwarf the economic pains of 2008. The situation today “looks much worse than I had imagined 10 years ago,” he said on

Monday.

Echoing a long-running concern, Druckenmiller said that the biggest issue facing the US is runaway entitlements such as Social Security, Medicare and Medicaid, which without cuts today will have to be slashed in the future... but never are as doing so is political suicide.

The investing legend expressed concerns about the Biden administration's plans to deal with the potential shortfalls, as well as the lack of fiscal restraint by the Republican party, which at least in theory, should represent conservative values.

Spending on seniors will reach 100% of federal tax revenues by 2040 based on Congressional Budget Office estimates, he said, including interest expense. What's more, the current \$31 trillion US debt load doesn't account for future entitlement payments. Accounting for the present value of that burden, the full US debt load is more like \$200 trillion, he estimated.

Druckenmiller also questioned the actions of the Federal Reserve, saying the agency's easy-money policies over the past decades created reckless behavior in financial markets, government and banks.

"Unfortunately, by still owning a large amount of government debt, the Fed continues to create the false illusion that it can help with our fiscal problems."

While raising interest rates 5 percentage points in the past year was a move in the right direction — "trying to correct the biggest mistake in Fed history" — Druckenmiller questioned the central bank's resolve to stick to its guns.

"At the first signs of trouble, the Fed last month, and in just four days, undid most of the small progress they had made in reducing their balance sheet," he said. "This asymmetric Fed response is what feeds the lack of serious structural action in DC from both sides of the aisle."<sup>7</sup>

## Footnotes and Sources

1. The Wall Street Journal, May 19, 2023

2. The Wall Street Journal, May 19, 2023

3. The Wall Street Journal, May 19, 2023

4. National Association of Home Builders, May 16, 2023.

5. Fox Business, May 17, 2023

6. The Wall Street Journal, May 18, 2023

7. [zerohedge.com/markets/druckenmiller-americas-debt-crisis-its-watching-horror-movie-unfold](https://www.zerohedge.com/markets/druckenmiller-americas-debt-crisis-its-watching-horror-movie-unfold)

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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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