Amadeus Wealth Alternatives 411 Hackensack Ave. Ste. 200, Hackensack, NJ 07601 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: Markets down ahead of Thanksgiving holiday.

Weekly Economic Update

Presented by Ed Papier, November 21, 2022

THE WEEK ON WALL STREET

The stock market edged lower last week as it digested a crosscurrent of conflicting economic data and contrasting comments from Fed officials.

The Dow Jones Industrial Average was flat (-0.01%), while the Standard & Poor's 500 declined by 0.69%. The Nasdaq Composite index lost 1.57% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, fell 0.88%. [1,2,3]

STOCKS SLIP

Stocks took a spill after Fed officials' comments cast uncertainty about future rate hikes. The more hawkish comments soured investor hopes of an imminent easing in Fed rate hikes, a prospect that had helped fuel the market rally the previous week.

Concerns over the hawkish comments raised investor worries over recession risks, anxiety exacerbated by weak housing data and layoff announcements from major technology companies. The economic picture, however, included some encouraging news as retail sales rose and producer price increases moderated.

PRODUCER PRICES EASE

The Producer Price Index (PPI), which reflects the costs paid by domestic producers, seen as an indicator of future consumer prices, is not typically a market-moving event. That was not the case last week.

October's PPI rose a modest 0.2%, well below the 0.4% consensus estimate. The year-over-year increase moderated to 8.0%, compared to 8.4% in September and the peak of 11.7% in March. The eye-catching element may have been the 0.1% service decline, representing the first decline since November 2020. Excluding food and energy, the PPI was flat for the month and up 6.7% from a year ago. [4]

A FINAL WORD

We wish you and your family a wonderful Thanksgiving and express our gratitude for the privilege of working with you. Happy Thanksgiving!

THE WEEK AHEAD: KEY ECONOMIC DATA

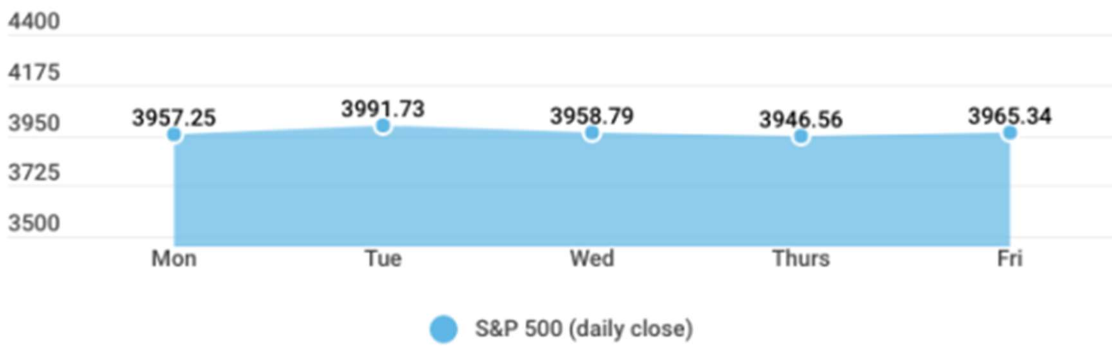
Wednesday: Durable Goods Orders. Jobless Claims. Purchasing Managers' Index (PMI) Composite. New Home Sales. Consumer Sentiment. FOMC Minutes.

QUOTE OF THE WEEK

"Nothing is more fatal than for the Government of States to get in the hands of experts. Expert knowledge is limited knowledge, and the unlimited ignorance of the plain man who knows where it hurts is a safer guide than any rigorous direction of a specialized character."

WINSTON CHURCHILL

Market Index	Close	Week	Y-T-D
DJIA	33,745.69	-0.01%	-7.13%
NASDAQ	11,146.06	-1.57%	-28.76%
MSCI-EAFE	1,901.59	-0.88%	-18.60%
S&P 500	3,965.34	-0.69%	-16.80%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.82%	+0.00%	+2.30%

Sources: The Wall Street Journal, November 18, 2022; Treasury.gov, November 18, 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, November 11, to Friday, November 18, close. Weekly performance for the MSCI-EAFE is measured from Friday, November 11, open to Thursday, November 18, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

The Federal Reserve suggests that under the surface the US economy is running even hotter than they thought, helping to explain why inflation remains at a 40-year high and providing reason to expect even more interest-rate hikes.

Tucked within 12 dense pages describing the Fed's September policy meeting was a statement concerning a seemingly innocuous yet vital estimate that the staff use as a building block for internal economic forecasts.

Their gauge of US potential output was "revised down significantly," the minutes showed, due to disappointing productivity growth and slow gains in labor force participation.

Potential gross domestic product is essentially an estimate of how fast the economy can run without breaking a sweat in the form of tightening resources and higher inflation. The new estimate was not disclosed -- nor was the prior one.

Even so, "the policy implication is significant," said Anna Wong, chief US economist at Bloomberg Economics. "Lower potential growth means the economy has been more overheated last year and this year than realized, and it will take more rate hikes or a longer period of below-trend growth to close the output gap," said Wong, a former Fed economist.

Fed staff don't set policy. That's the job of the 19 officials who sit on the Federal Open Market Committee. But they do provide very important inputs that help shape the thinking of policymakers, who are currently raising interest rates at the fastest pace since the 1980s to curb runaway inflation.
Wong estimates the US central bank will deliver more rate increases until they get rates in the 5% range next year.

Officials last month projected rates peaking in 2023 at 4.6%, compared to a current target range of 3% to 3.25%. Their median estimate for long-term sustainable growth was 1.8%, though the diversity of views is wide with a range of 1.6% to 2.2%.

The US economy grew at a 5.7% pace in the final quarter of 2021, compared with the fourth quarter of the previous year. If the staff revised down its estimate for potential, it suggests the economy was above its longer-run trend by even more than initially thought and remains above it, even though growth is slowing.

Like a rocket whose trajectory is overshooting its target, if the economy's level is still above its longer-run trend, that explains why inflation continues to be broad and stubborn.

"We got way above potential in 2021, the level of GDP is still way above potential, and that explains the persistence of inflation," said John Roberts, an economic consultant and former head of the Fed Board's macroeconomic modeling team.

The core consumer price index, which excludes food and energy, increased 6.6% from a year ago, the fastest pace since 1982. The broader gauge was up 8.2% from a year earlier. Growing much faster than potential also helps explain why employers added 562,000 jobs a month on average in 2021 as the labor market recovered from a brief pandemic-induced recession.

The staff also said that unemployment was expected to rise more slowly than they previously estimated and stay below their estimate of a level of joblessness that won't stoke inflation pressures until the end of 2025.

Nevertheless, inflation measured by the Fed's preferred gauge was expected to be 2.6% next year, a remarkable deceleration from 6.2% in August. The minutes said the staff estimate is based on a view that supply and demand fall back into balance with lower energy prices.

"The staff has been relatively optimistic," said William English, a professor at the Yale School of Management. "There is some evidence that suggests near term inflation expectations are getting built into wage inflation and that could perpetuate."

English, who was previously ran the Fed's powerful Division of Monetary Affairs, also pointed out that the economy appears fairly resilient, and the labor market may need to slow substantially to reduce demand and wage pressures. "I see a federal funds rate that is going higher, an unemployment rate that is going higher, and a path of inflation that is going down slower" compared to what officials projected in their September forecasts, English said. [5]

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

Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:
1. The Wall Street Journal, November 18, 2022
2. The Wall Street Journal, November 18, 2022
3. The Wall Street Journal, November 18, 2022
4. CNBC, November 15, 2022
5. advisorperspectives.com/articles/2022/10/20/three-hidden-words-from-fed-insiders-point-to-much-higher-rates?topic=fixed-income