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Amadeus Wealth Alternatives
Your Compass to Alternative Investments

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In this week's recap: COVID-19 variant clobbers markets.

Weekly Economic Update

Presented by Ed Papier, November 29, 2021

THE WEEK ON WALL STREET

News of a new, highly virulent COVID variant triggered a market sell-off on Friday, sending stocks into negative territory for the week.

The Dow Jones Industrial Average slid 1.97%, while the Standard & Poor's 500 slumped 2.20%. The Nasdaq Composite index lost 3.52% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, dropped 1.68%.[1,2,3]

RED FRIDAY

Investors woke up on Black Friday to reports of a mutated COVID variant, reviving fears of potential new economic restrictions. U.S. markets were not alone, as stock prices in Europe and Asia also tumbled.

Friday's market action saw declines in economic reopening stocks, such as travel and leisure, cyclicals, financials, and energy, while some of the so-called stay-at-home stocks and pharmaceutical stocks experienced gains. Yields retreated amid a flight to safety and the potential that this turn of events may lead to a slowdown in the Fed's bond tapering program and a delay in contemplated rate hikes. Prior to Thanksgiving the markets had been choppy, but largely trending higher for the week, while yields had moved up with the renomination of Fed Chair Powell.

POWELL RENOMINATED

President Biden announced last week that he was renominating Jerome Powell to serve another term as chairman of the Federal Reserve Bank, ending market speculation surrounding his renomination.

President Biden cited the need for stability and independence in a time of uncertainty in making his decision. While Powell's renomination faced resistance, Senate approval appears likely. Coincident with Powell's renomination, President Biden also nominated Lael Brainard, a member of the Federal

Reserve Board of Governors, to serve as vice chair. Investors can soon expect further Fed nominations by the Biden Administration to fill vacancies created by term expirations and retirements.

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Consumer Confidence.

Wednesday: ADP (Automated Data Processing) Employment Report. ISM (Institute for Supply Management) Manufacturing Index.

Thursday: Jobless Claims.

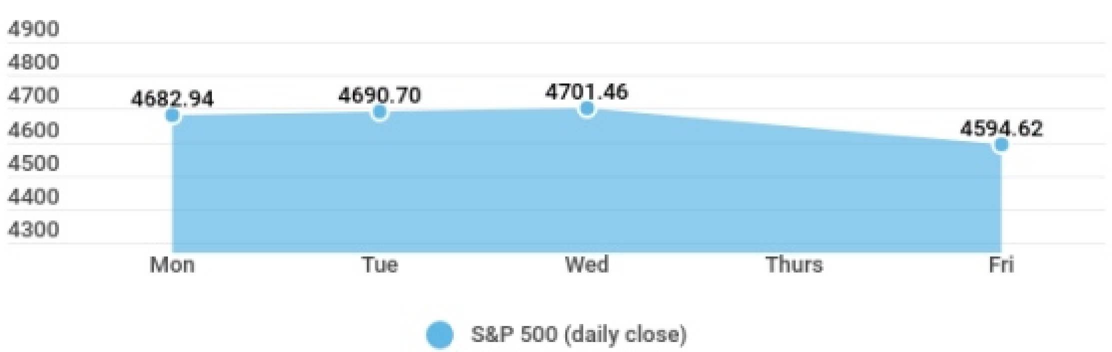
Friday: Employment Situation. Factory Orders.

QUOTE OF THE WEEK

"Our most important thoughts
are those that contradict our emotions."

PAUL VALERY

Market Index	Close	Week	Y-T-D
DJIA	34,899.34	-1.97%	+14.03%
NASDAQ	15,491.66	-3.52%	+20.20%
MSCI-EAFE	2,305.54	-1.68%	+7.36%
S&P 500	4,594.62	-2.20%	+22.33%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.48%	-0.06%	+0.55

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Sources: The Wall Street Journal, November 26, 2021; Treasury.gov, November 26, 2021
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 19, to Friday, November 26, close. Weekly performance for the MSCI-EAFE is measured from Friday, November 19, open to Thursday, November 25, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

cannibalization'. The elites consume the productivity of working and middle-class Americans, while indenturing future offspring to debt servitude. After gorging at the public trough, they toss dog scraps to placate the masses. By consuming itself, the nation can temporarily live beyond its means. This dynamic is best observed by looking at the growth in federal debt since the turn of the century.

When Y2K came and went without a hitch the federal debt was about $5.6 trillion. Today it's over $28.9 trillion. In just 22 years the federal debt has increased by over 416 percent. Over this same period, real U.S. gross domestic product has only increased from about $12.5 trillion to roughly $23 trillion, roughly 84 percent.

The difference between debt growth and GDP growth, as far as we can tell, is a recipe for disaster. Yet this isn't the half of it. This growth in national debt relative to national income coincided with a corresponding growth in something for nothing policies. The growth in national debt relative to national income also occurred during a period of especially cheap credit.

Cheap credit, however, can also give way to expensive credit. And as interest rates rise, the net interest payments to service the debt also rise. Net interest payments on the national debt for fiscal year 2021 were just over $300 billion. This was in a year when the yield on the 10-Year Treasury note was mostly below 1.5 percent. However, it won't take much of an increase in interest rates to completely blowout the budget.

According to the Committee for a Responsible Federal Budget, interest rates of one percentage point higher for all of fiscal year 2021 would have totaled interest costs of $530 billion — more than the cost of Medicaid. Rates two percentage points higher would have totaled interest costs of $750 billion, which is more than the federal government spends on defense or Medicare. And at three percentage points higher, interest costs would have totaled $975 billion — almost as much as is spent on Social Security.

The greater the federal debt, the more exposed the federal government is to the ticking timebomb of rising interest rates. What if the 10-Year Treasury note jumps to over 15 percent like it did in 1981 to counteract raging inflation? That would likely mean that net interest rate payments would be made entirely with borrowed money. This along with mass currency debasement is where self-cannibalization ultimately leads.

In the meantime, our elected representatives have hatched a pretty neat scheme to shirk responsibility.
The main task for politicians is to evade responsibility when it's discovered that infrastructure spending, like other forms of waste, is flushed down the toilet.

When President Barry Obama signed the American Recovery and Reinvestment Act in early-2009 he tasked his Vice President, Joe Biden, with ensuring the $800 billion was spent wisely. Biden put together an oversight team to follow the money. He also pleaded with local politicians to not spend the money on *"stupid things."* Little good this did. According to the Wall Street Journal:

"An Alaskan village called Ouzinkie, population 167, received a $15 million airport while some major hubs received nothing. Only about 10 percent of the law's spending, or $80 billion, was devoted to infrastructure—and very little went to critical work. Funding 'shovel-ready' projects promised by the politicians meant that money didn't go to the bridges most in need of repair but to jobs that could quickly clear the thicket of regulatory permitting. Repaving roads was a typical activity; less than 12 percent of the infrastructure spending went for work on bridges. A promised green-jobs boom never materialized."

So where did the remaining 90 percent of the money go if only 10 percent went to infrastructure? Does anyone even know? We suspect it went to the elites and connected insiders who did a lot of nothing with it while bringing home inflated incomes.

Alas, the newest infrastructure boondoggle bill appears to be a repeat of the last one. Washington's merely piling boondoggles upon boondoggles. The Cato Institute's Randal O'Toole writes:

"About half of the transportation dollars in the bill are dedicated to Amtrak and urban transit, modes of transportation that carry less than 1 percent of passenger travel and no freight. While the other half appears to be dedicated to highways, much of that will be spent on projects that will reduce, not

half appears to be dedicated to highways, much of that will be spent on projects that will reduce, not maintain or increase, roadway capacities."

At this point, what's most important to the bill's sponsors is to have a way to shirk responsibility for all the waste to come. Former New Orleans Mayor Mitch Landrieu will serve as senior advisor and infrastructure coordinator for the boondoggle bill. Will he do a better job than his predecessors did in this role? One can only hope. But regardless, it really doesn't matter…the Washington elites, thanks to 21st century American democracy, have another boondoggle bill to exploit and feed off. After that, countless roads will get repaved, whether they need it or not.[4]

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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 26, 2021
2. The Wall Street Journal, November 26, 2021
3. The Wall Street Journal, November 26, 2021
4. economicprism.com/boondoggle-democracy-for-the-elites/#more-7813