Amadeus Wealth Alternatives 1345 Ave. of the Americas 2nd Fl., New York, NY 10105 www.amadeuswealth.com

Amadeus Wealth Alternatives
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212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Strong week on Wall Street, despite concerns with inflation, supply chain, and other matters

Weekly Economic Update

Presented by Ed Papier, October 25, 2021

THE WEEK ON WALL STREET

Stocks rallied last week on a stream of positive corporate earnings surprises.

The Dow Jones Industrial Average rose 1.08%, while the Standard & Poor's 500 advanced 1.64%. The Nasdaq Composite index gained 1.29% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, was up 0.23%.[1,2,3]

EARNINGS IGNITE RALLY

Fears over inflation, supply shortages, and slowing economic growth in China were pushed aside last week as investors reacted to a daily succession of positive corporate earnings surprises. After the Dow Industrials reached an all-time high intraday on Wednesday, fresh earnings reports, an increase in existing home sales, and a new pandemic low in initial jobless claims–and continuing claims–propelled the S&P 500 index to a new record high the following session.[4,5]

Disappointing earnings before the market opened on Friday hurt a few social media stocks, resulting in a choppy trading session and a selloff in the Nasdaq to close out the week.

SOLID START TO SEASON

Investors came into the earnings season anxious about whether businesses could extend the earnings growth momentum of recent quarters amid an increase in Delta infections, inflation, labor shortages, and supply-chain bottlenecks. The early results were encouraging. Of the 23% of companies comprising the S&P 500 index that have reported, 84% beat Wall Street consensus earnings estimates by an average of more than 13%.[6]

The earnings season may get more uneven in coming weeks since many of the companies potentially affected by labor shortages and inflation have yet to report. Nevertheless, these better-than-expected earnings buoyed investor spirits and allowed stocks to build on their October gains.

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: New Home Sales. Consumer Confidence.

Wednesday: Durable Goods Orders.

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

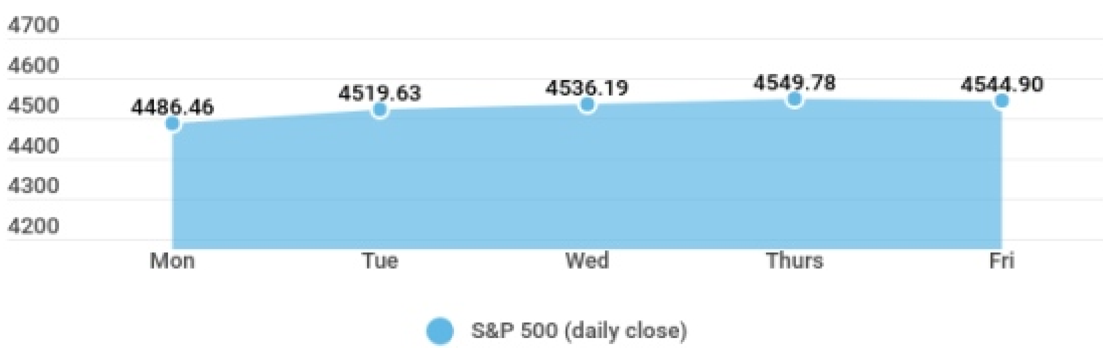
Friday: Consumer Sentiment.

QUOTE OF THE WEEK

"All democracies eventually die, usually by suicide."

BENJAMIN FRANKLIN

Market Index	Close	Week	Y-T-D
DJIA	35,677.02	+1.08%	+16.57%
NASDAQ	15,090.20	+1.29%	+17.08%
MSCI-EAFE	2,329.83	+0.23%	+8.49%
S&P 500	4,544.90	+1.64%	+21.00%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.66%	+0.07%	+0.73%

Sources: The Wall Street Journal, October 22, 2021; Treasury.gov, October 22, 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, October 15, to Friday, October 22, close.

Weekly performance for the MSCI-EAFE is measured from Friday, October 15, open to Thursday, October 21, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

were supposed to stimulate a self-sustaining economic boom. Instead, these policies of extreme intervention have stimulated chaos. The official inflation rate, as measured by the government's consumer price index (CPI), is rising at an annualized clip of 5.4 percent. But that's nothing. Alternative inflation rates, which better reflect what consumers are actually experiencing, are double and triple the official CPI.

At the same time, the economy appears to be slowing down. According to the Atlanta Fed's GDPNow forecasting model, as of October 19, real gross domestic product (GDP) growth in the third quarter of 2021 is estimated to be just 0.5 percent. This is down from 1.2 percent on October 15th, 6 percent in late August, and 14 percent in May. At this rate, by the next GDPNow update, growth estimates could be negative. And if you factor in the inflation adjusted growth rate, the economy's already shrinking at a rate of 4.9 percent per year. In other words, the U.S. economy's in an inflationary recession. How could that be?

The occurrence of simultaneously rising inflation and declining growth is an unnatural manifestation. In fact, we'd posit that such an occurrence would be naturally impossible if there were balanced budgets and a stable money supply. Thus, attaining the misery of stagflation is the result of massively excessive fiscal deficits and monetary stimulus.

And now, with the misery now bearing down upon us, fiscal and monetary policies are becoming grossly disjointed. Congress wants to pass a $2.2 trillion – down from $3.5 trillion – social spending bill into the economy in the face of rising inflation. At the same time, the Federal Reserve wants to taper back its asset purchases as the economy is slowing. In effect, fiscal and monetary policy will soon be working against each other. Namely, they'll be promoting rising inflation and slower growth.

The era of stimulus checks and cheap consumer goods was fun while it lasted. Like a hot lunch, it always tastes better when free. The smell is more aromatic. The bites are more flavorful. Most of all, the belly leaves the table more contented. But is a free lunch ever really free? *"It is an immutable economic fact,"* said WWI Brigadier General Leonard P. Ayres many years ago, *"that there is no such thing as a free lunch."* With that brief statement Ayres crystalized one of the world's essential axioms. Like gravity or the golden rule, you can't refute it.

Fred Brooks, the man who changed the IBM 360 series from a 6-bit to an 8-bit byte, thus allowing the use of lowercase letters, elaborated the idea when he said, *"You can only get something for nothing if you have previously gotten nothing for something."*

Similarly, if one person or group gets something at no cost, someone else must pick up the tab. This, in short, is why fiscal and monetary stimulus are such a massive sham. Wealthy asset owners get a boost to their stock portfolios and property holdings. Wage earners get scraps. The unemployed get stimulus checks. Everyone pays for it through rising prices and a skyrocketing debt burden. Future generations get shafted.

One group of people get a free lunch off the backs of another. The rich and the poor get something for nothing. The lowly wage earner gets nothing for something. Certainly, all entitlement programs are doomed for this reason. There's no way around it…there are no free lunches. But this simple fact doesn't stop policy makers from promising them anyway. For promising something for nothing is good politics. Just this week, for instance, the monetary policy virtuosos at the Federal Reserve told the world they'd keep giving them something for nothing…but not quite as much as before. Here's Fed Governor Christopher Waller… *"While there is still room to improved on the unemployment leg of our mandate, I believe we have made enough progress such that tapering of our asset purchases should commence following our next FOMC meeting, which is in two weeks."*

If you recall the Fed has been creating credit from thin air to buy $120 billion a month of U.S. Treasuries and mortgage-backed securities since early 2020. These purchases have held interest rates artificially low and supplied free lunches in the form of low borrowing costs. Consequently, government debt and housing prices have soared to unbelievable heights.

Who knows how much the Fed will initially taper? We suppose we'll find out following the next FOMC meeting. But suppose the Fed starts by tapering back asset purchases by 20 percent. What would this mean? The tapering of asset purchases from $120 billion to $96 billion a month is like a cigarette smoker cutting back from 40 to 32 cigarettes a day. The tapering's really of no cigarette smoker cutting back from 40 to 32 cigarettes a day. The tapering's really of no significance. The Federal Reserve, like the smoker, has signed its death certificate regardless. Until the Fed eliminates asset purchases and starts reducing its balance sheet, its policies are still inflationary. Until the Fed meaningfully raises the federal funds rate, it isn't serious about getting its monetary policy house in order.

As a result of its asset purchase program, the Fed's balance sheet has exploded to over [$8.4 trillion](). Just 15-years ago, the Fed's balance sheet was about $800 billion. Moreover, the Fed created this $8.4 trillion out of thin air. In other words, it created something from nothing on a grand scale. Who pays for this? By the law of the no free lunch axiom, we must get nothing for something to balance out the Fed's money games. That's how you get something for nothing. What we mean is, we'll all pay for it in the end. We'll pay with our time. We'll pay with our talents. We'll pay with our soul. We'll work for a diminishing standard of living. The havoc to be wreaked will also show up in seemingly unrelated places. Rising food prices in northern Africa could prompt another coup. Wage inflation could pop up in China, derailing its economic miracle and causing mass civil discontent. Here in the U.S. the dollar could plummet on the world currency mark, sending everything to hell in a hand basket.

There are dramatic consequences for pursuing something for nothing. To get it, you must walk the path of self-destruction. This is the path the central planners have paved. Avoiding it as best you can, will be the ultimate challenge.[7]

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

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CITATIONS:

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4. CNBC, October 20, 2021
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