



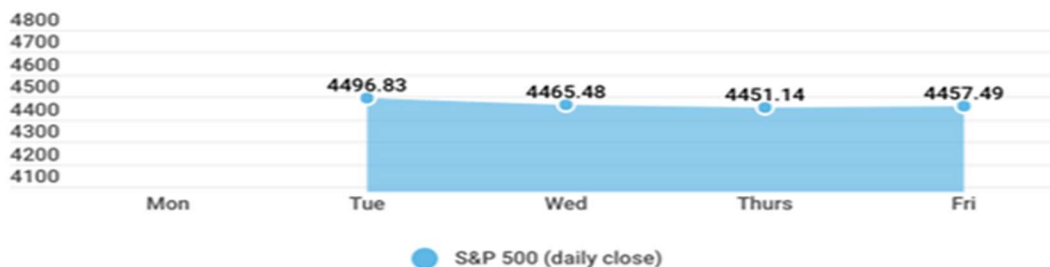
## WEEKLY ECONOMIC UPDATE SEPT. 11, 2023

Concerns that the Fed may raise interest rates soured investor sentiment, sending stocks lower in a holiday-shortened trading week.

The Dow Jones Industrial Average slipped 0.75%, while the Standard & Poor's 500 declined 1.29%. The Nasdaq Composite index dropped 1.93% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, lost 1.28%.<sup>1,2,3</sup>



Market Index	Close	Week	Y-T-D
DJIA	34,576.59	-0.75%	+4.31%
NASDAQ	13,761.53	-1.93%	+31.48%
MSCI-EAFE	2,077.17	-1.28%	+6.85%
S&P 500	4,457.49	-1.29%	+16.10%



	Treasury	Close	Week	Y-T-D
	10-Year Note	4.26%	+0.08%	+0.38%

Sources: The Wall Street Journal, September 8, 2023; Treasury.gov, September 8, 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, September 1, to Friday, September 8 close. Weekly performance for the MSCI-EAFE is measured from Friday, September 1 open to Thursday, September 7 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

## Stocks Resume Their Decline

Stocks were bedeviled by rising bond yields and higher oil prices last week, with technology shares bearing the brunt of the decline. Hopes that the Fed may not find it necessary to raise interest rates were dented by economic data reflecting higher prices, rising labor costs, and fewer-than-forecast initial jobless claims.

The inflationary implications of higher oil prices also contributed to the growing sense that the Fed may implement additional rate hikes. While bond traders generally still expect no rate hike in September, the likelihood of a 0.25% rate hike or higher in November jumped to 43.3% by Friday morning from 35.4% a week ago.<sup>4</sup>

## Oil Prices Spike

Last week, Saudi Arabia and Russia announced they would extend their oil production cuts to the end of the year. Investors had expected these cuts to be stretched to October, so the three-month extension surprised the markets.

The announcement sent oil prices higher on supply shortage worries in the coming winter months, with the West Texas Intermediate (WTI) oil price climbing to a 10-month high.<sup>5</sup>

Higher oil prices also sparked concerns that it would make the Fed's inflation fight more difficult, potentially forcing the Fed to hike rates above market expectations.

## This Week: Key Economic Data

**Wednesday:** Consumer Price Index (CPI).

**Thursday:** Jobless Claims. Producer Price Index (PPI). Retail Sales.

**Friday:** Consumer Sentiment. Industrial Production.

# Quote of the Week



*"Do not merely practice your art but force your way into its secrets; it deserves that, for only art and science can exalt man to divinity."*

– Ludwig van Beethoven



Why would governments and central banks use the term “financial repression” when it has such a negative connotation? Even people who are financially illiterate will still understand that financial repression is a bad thing. Nonetheless, financial repression is real and will destroy the bond market.

Simply put, financial repression is the strategy governments use to reduce their debt burden by manipulating interest rates below inflation. It allows them to borrow in dollars and repay in dimes.

Here’s how the IMF describes it: “High public debt often produces the drama of default and restructuring. But debt is also reduced through financial repression, a tax on bondholders and savers via negative or below-market real interest rates. After WWII, capital controls and regulatory restrictions created a captive audience for government debt, limiting tax-base erosion. Financial repression is most successful in liquidating debt when accompanied by inflation.”

For example, if inflation is 9% and governments fix interest rates at 4%, there is an ongoing wealth transfer of 5% from the lender to the borrower that compounds over time. Its conceivable financial repression is how the US government will try to manage its otherwise impossible debt situation by siphoning off the wealth stored in Treasuries.

The idea is to stealthily confiscate wealth from bondholders without causing too much alarm. However, there is a good chance that bondholders will figure out the scam and dump their bonds, pushing interest rates higher. Since the Fed cannot allow rates to rise much further without sparking the bankruptcy of the US government, they’d be forced to print more dollars to try to counteract the rising rates. However, that would cause inflation to increase and bondholders to seek an even higher interest rate to compensate for the inflation, creating a self-perpetuating doom loop.

That could invite a disastrous financial collapse or even hyperinflation. Some analysts believe the US government understands these relationships and will implement measures to block the exits (capital controls) and corral more people into Treasuries through various mandates and regulations as they impose financial repression. They point out many countries have forced private retirement funds into unwanted government debt and that the US government might do the same under pressure. They could try to sell it as a safety measure, to help people protect their retirement savings by putting them into “safe” Treasuries amid a stock market collapse. They could try to sell it with appeals to patriotism and then push War Bonds, as they’ve done in the past. They could mandate that some amount, say 25% of new contributions to private retirement accounts, must consist of Treasuries—for their own good. They could also forcibly convert existing assets held in retirement accounts into government bonds. No matter the method, the result is the same.

At the same time, the mainstream media is likely to ramp up its propaganda and gaslighting on inflation. They’ll blame supply chain problems, Vladimir Putin, and greedy corporations... anything but the Fed’s currency debasement as the source of inflation.

Further, we can expect the government to change how it calculates inflation—to show fewer price increases—and raise its official inflation target from 2% to 3% or higher. In Argentina, the government made publishing inflation statistics that differ from the official government numbers illegal. Conspiracy theorists contend discussing inflation statistics other than the official, CPI might be deemed disinformation and perhaps cause you or your business to be de-platformed. Recall the CPI is calculated very differently today than it was 30 years ago. Under the latter methodology ([http://www.shadowstats.com/alternate\\_data/inflation-charts](http://www.shadowstats.com/alternate_data/inflation-charts)), inflation would be 8% today rather than 4%.

In short, expect a whole slew of shenanigans to rope people into Treasuries and lie to them about inflation to maximize the wealth that can be stolen via financial repression. The bottom line is currency debasement is the inevitable outcome of the US government’s impossible debt situation. The only question is whether the currency debasement will occur in a relatively controlled fashion (financial repression) or it will spiral out of control (potentially hyperinflation). Either outcome is catastrophic for bondholders.<sup>6</sup>

## Footnotes and Sources

1. The Wall Street Journal, September 8, 2023

2. The Wall Street Journal, September 8, 2023
3. The Wall Street Journal, September 8, 2023
4. CME Group, September 8, 2023
5. Reuters, September 5, 2023
6. [zerohedge.com/markets/turn-tables-financial-repression](https://www.zerohedge.com/markets/turn-tables-financial-repression)

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

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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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