Amadeus Wealth Alternatives 14 Penn Plaza 9th Fl. 9th Fl., New York, NY 10122 www.amadeuswealth.com

212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

*In this week's recap: The tech sector slip continues for stocks; the Federal Reserve signals that interest rates will not be increased for some time.*

# Weekly Economic Update

*Presented by Edward Papier, CIMA® CFF, September 21, 2020*

## THE WEEK ON WALL STREET

Stocks slipped as the technology sector remained under pressure and a mid-week announcement by the Federal Reserve failed to inspire investors.

The Dow Jones Industrial Average declined 0.03%, while the Standard & Poor's 500 fell 0.64%. The Nasdaq Composite index dropped 0.56% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, rose 0.75%.[1,2,3]

## TECHNOLOGY PULLS STOCKS LOWER

As has been the case in recent weeks, technology stocks led the market higher, then lower in an otherwise turbulent week of trading.

Merger and acquisition activity announced at the start of the week generated a rush back into technology stocks, sparking a rebound from the previous week's drop. Stocks continued to advance until Wednesday, when investors began to digest comments from the Fed's Federal Open Market Committee meeting. The Fed delivered a message that coupled assurances of continued low rates with concerns about the health of the economic recovery.[4]

## THE FED STAYS THE COURSE

In the last Federal Open Market Committee (FOMC) meeting before the November election, the Fed signaled that interest rates would not be increased "until labor market conditions have reached levels consistent with the committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time."[4]

Most Fed officials do not see this happening until 2023.

While the Fed maintained its view on the importance of fiscal stimulus to help American workers and businesses, it did improve its outlook for unemployment in its latest economic outlook. The Fed now expects unemployment would average around 7-8% in the final three months of the year, down from its June prediction of around 9-10%.[5]

## THE WEEK AHEAD: KEY ECONOMIC DATA

**Tuesday:** Existing Home Sales.

**Thursday:** Jobless Claims. New Home Sales.

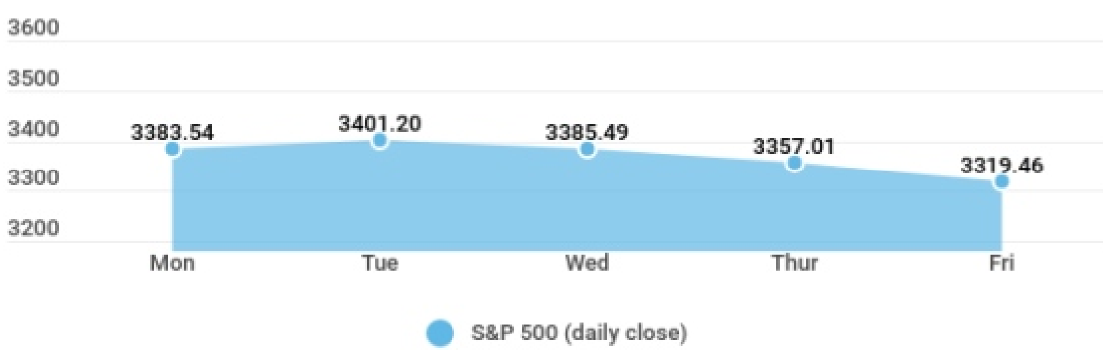
**Friday:** Durable Goods Orders.

### QUOTE OF THE WEEK

*"The latter part of a wise person's life is occupied with curing the follies, prejudices and false opinions they contracted earlier"*

*JONATHAN SWIFT*

| Market Index | Close | Week | Y-T-D |
|---|---|---|---|
| DJIA | 27,657.42 | -0.03% | -3.09% |
| NASDAQ | 10,793.28 | -0.56% | +20.29% |
| MSCI-EAFE | 1,911.18 | +0.75% | -6.17% |
| S&P 500 | 3,319.46 | -0.64% | +2.74% |




| | Treasury | Close | Week | Y-T-D |
|---|---|---|---|---|
| | 10-Year Note | 0.70% | +0.03% | -1.22% |

Sources: The Wall Street Journal, September 18, 2020; Treasury.gov, September 18, 2020
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 11, to Friday, September 18, close. Weekly performance for the MSCI-EAFE is measured from Friday, September 11, open to the Thursday, September 17, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

## OF NOTE

If you're looking for an excuse to get tactically bearish, you might point to quarterly rebalancing flows. Equities have outperformed fixed income during the third quarter by a wide margin, which points to a big adjustment for fixed investors. JPMorgan's Nikolaos Panigirtzoglou pegs the outflow for equities at some $200 billion. Of course, you needn't lean solely on this if what you're after is confirmation bias for any cautious views you may be harboring around equities. After all, US stocks are the most expensive in two decades heading into an election which promises unprecedented drama and a contested outcome. In addition to the prospect of more social unrest following the US vote, there's Brexit to worry about, and Sino-US relations aren't seen improving materially no matter who occupies the Oval Office. And let's not forget about decelerating economic activity in the absence of additional fiscal stimulus. August's retail sales figure didn't do much to shore up confidence in that regard, and while the labor market is healing, structural damage is piling up. Rebalancing flows that occur in an environment of low liquidity can have a big impact both on the downside and on the upside. We've seen some poignant examples of this over the past couple of years, with one particularly notable episode being the buying that took place at the end of 2018, when an egregious December plunge for US stocks was ameliorated by rebalancing flows into a totally illiquid market. For his part, Panigirtzoglou warns that this month's negative impulse "becomes even more problematic given a sharp decline in equity market depth". We're reminded that liquidity never recovered following "Volpocalypse"* in February 2018. And yet, JPMorgan remains constructive on stocks over the medium- to long-term. On Tuesday, the bank's Marko Kolanovic told Bloomberg TV that this month's tech-centric rout is "probably done"…positioning is low. We got a little bit of a purge, so we think [the] market can actually move higher from here", he said.[6]

Our thoughts- consider David Stockman's observations**:** Both ends of the Acela Corridor have lost their marbles. This year, Uncle Sam borrowed $4 trillion in six months, the Fed printed $3 trillion in three months, and Wall Street drove the S&P 500 to 52X reported LTM earnings in the context of a deeper economic plunge than occurred in the worst quarter of the 1930s…Washington has become disconnected from any semblance of fidelity to sound money and fiscal rectitude, while Wall Street has turned into an outright casino, valuing stocks based on endless Fed liquidity injections and the delusion that momentum chasing is an investment strategy.

*In the afternoon of February 5th, 2018, what looked like a bad day for a group of high-flying volatility-based products turned into a devastating decline. Four factors combined to ruin their day: A Flawed Architecture, Relying on the Past to Predict the Future, Billions Under Management, A Record-Breaking VIX spike.

Edward Papier, CIMA® CFF 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, September 18, 2020
2. The Wall Street Journal, September 18, 2020
3. The Wall Street Journal, September 18, 2020
4. The Wall Street Journal, September 16, 2020
5. The Wall Street Journal, September 16, 2020
6. heisenbergreport.com/2020/09/16/jpmorgan-sees-200-billion-near-term-risk-for-stocks-but-kolanovic-still-broadly-bullish/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treasury.gov, September 18, 2020