Amadeus Wealth Alternatives 411 Hackensack Ave. Ste. 200, Hackensack, NJ 07601 www.amadeuswealth.com

212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Fallout from Powell comments continues.

Weekly Economic Update

Presented by Ed Papier, September 26, 2022

THE WEEK ON WALL STREET

Last week, Fed Chair Powell said the U.S. would not tame inflation without economic pain. This week heightened recession fears and sent stocks broadly lower.

The Dow Jones Industrial Average dropped 4.00%, while the Standard & Poor's 500 lost 4.65%. The Nasdaq Composite index fell 5.07% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, declined 3.05%. [1,2,3]

YIELDS SURGE, STOCKS TUMBLE

Last week's meeting of the Federal Open Market Committee (FOMC) proved unsettling for the financial markets. It wasn't only the widely expected announcement of another rate hike but a more hawkish message that rates may be heading higher for longer than anticipated. Fed officials indicated that any policy change might be further off than investors had contemplated.

The latest rate hike caused bond yields to rise, with two-year and ten-year Treasury note yields touching levels not seen in over a decade. Global central banks moved in tandem with the Fed, as the Bank of England, Swiss National Bank, and Norway's Norges Bank, among others, also hiked rates. [4,5]

ANOTHER RATE HIKE

In its effort to cool inflationary forces, the Federal Reserve raised interest rates by 0.75% last week—the third consecutive rate increase of that size. Projections by FOMC members suggested that interest rates may increase by as much as 1.25 percentage points before year-end. [6]

The FOMC also projects that unemployment will rise to 4.4% by December 2023. This projection is up from its current level of 3.7%, and that core inflation will be 4.5% by year-end. In June, Fed officials projected core inflation would be at 4.3% by year-end. They also indicated that interest rates may reach as high as 4.6% in 2023, without any rate cut likely until 2024. [7]

THE WEEK AHEAD: KEY ECONOMIC DATA

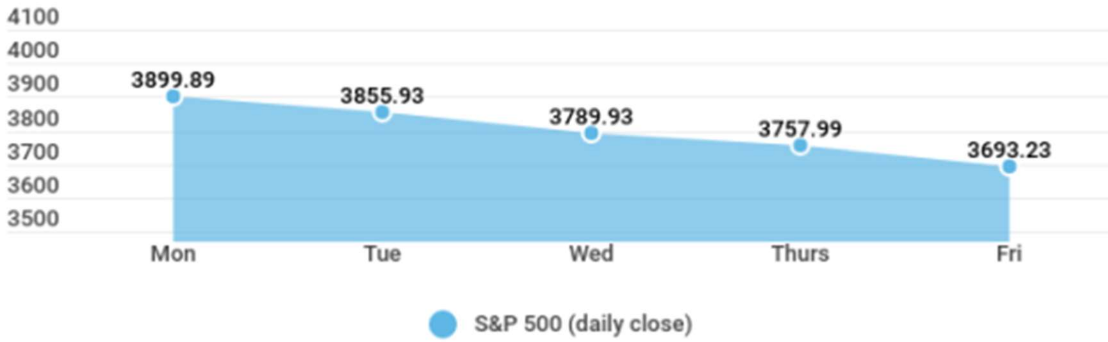
Tuesday: Durable Goods Orders. Consumer Confidence. New Home Sales.
Thursday: Jobless Claims. Gross Domestic Product (GDP).
Friday: Consumer Sentiment.

QUOTE OF THE WEEK

"It used to be a fashion amongst men that when a charge was made, some sort of proof was brought forward to establish it, and if no proof was found to exist, the charge was dropped"

ABRAHAM LINCOLN

Market Index	Close	Week	Y-T-D
DJIA	29,590.41	-4.00%	-18.57%
NASDAQ	10,867.93	-5.07%	-30.53%
MSCI-EAFE	1,734.01	-3.05%	-25.77%
S&P 500	3,693.23	-4.65%	-22.51%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.69%	+0.24%	+2.17%

Sources: The Wall Street Journal, September 23, 2022; Treasury.gov, September 23, 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, September 16, to Friday, September 23, close. Weekly performance for the MSCI-EAFE is measured from Friday, September 16, open to Thursday, September 22, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE:

Recently, the Biden Administration started taking victory laps on deficit reduction. Of course, the deficit remains the bully-pulpit of fiscal conservatives, so going into a mid-term election, it is not surprising to see it used for political advantage.

During most of the last 122 years, the U.S. economy ran with little or no deficit. However, President Reagan engaged in significant debt use to restart economic growth following two back-to-back recessions. Such was Keynesian economic theory in action as the Government engaged in spending to jumpstart economic growth. It worked. However, politicians only heard the *"spend money"* part.

Following President Reagan, each Administration used debt to fund mostly unproductive investments, increasing the Federal deficit. Not surprisingly, the consequence of increasing debt and deficits was slower economic growth. This decline in economic prosperity adds deflationary pressures on the economy. The surge of inflation is not a function of more robust economic growth, as seen previously. Instead, rather, the inflation directly resulted from the surge in deficit spending by the Government during the pandemic.

While the President is trying to claim credit for falling deficits, a recent Congressional Budget Office report suggests something entirely different. The monetary injections were the sole reason for the price surge. To wit:

"Not surprisingly, the massive surge in money supply flooding the system during an 'economic shut down' created a demand glut against a constrained supply. With consumers flush with 'free capital' to spend, there was no available production to provide the needed supply. With too much money chasing too few goods, inflation was the inevitable outcome."

Of course, with that money now spent, the economic growth and inflation derived from those *"stimulus checks"* will likewise reverse. While President Biden takes credit for the deficit reduction, it is not due to any action to reduce spending. It was, by all measures, a function of reversion to the mean - the deficit is reverting to its long-term linear trend. Given that trendline continues to decline, it suggests the current Administration is spending more than its predecessors.

According to a recent CBO report: *"By the time inflation comes under control, the federal budget deficit will balloon once again.* It is *on course to hit $2 trillion annually by the end of the decade. The new economic and budgetary outlook released by the Congressional Budget Office forecasts steady if unspectacular economic growth for the next 10 years, falling inflation rates, and climbing budget deficits. The report projects "the current economic expansion continues, and economic output grows rapidly over the next year." But the government continues to spend more than it collects in tax revenue . The latter will drive annual budget deficits to $1.7 trillion by 2028 and $2.3 trillion by the end of the 10-year budget window in 2032."*

President Biden is taking credit for the evaporation of $5 trillion in monetary liquidity. However, he overlooks $5 trillion in additional debt to create those *"stimulus checks,"* which remain *"on the books."* There is a long-standing addiction in Washington to debt. Every year, we continue to pile on more debt expecting economic growth to follow. As the CBO projects, Federal debt will top 180% of GDP by 2052, assuming no recessions in the next decade. The reality is that debt will likely reach those levels sooner than projected.

Such reckless abandon by politicians is simply due to a lack of *"experience"* with the consequences of debt. According to Lacy Hunt, *"Excessive indebtedness acts as a tax on future growth. It is also consistent with Hyman Minsky's concept of 'Ponzi finance . ' The size and type of debt being added cannot generate a cash flow to repay principal and interest. While the debt has not yet resulted in the sustained instability in financial markets envisioned by Minsky, the slow reduction in economic growth and the standard of living is more insidious.* "

As Mr. Hunt notes, debt-funded government spending increases and the "multiplier effect" becomes more negative over time. So, while the President touts the deficit reduction, it will be only a momentary decline. The deficit will rise as additional increases in debt continue. The outcome will negatively impact Americans through slower economic growth and declining prosperity. [8]

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, September 23, 2022
2. The Wall Street Journal, September 23, 2022
3. The Wall Street Journal, September 23, 2022
4. The Wall Street Journal, September 22, 2022
5. CNBC, September 22, 2022
6. The Wall Street Journal, September 21, 2022
7. CNBC, September 21, 2022
8. realinvestmentadvice.com/deficit-reduction-is-it-reality-or-a-mirage-2/