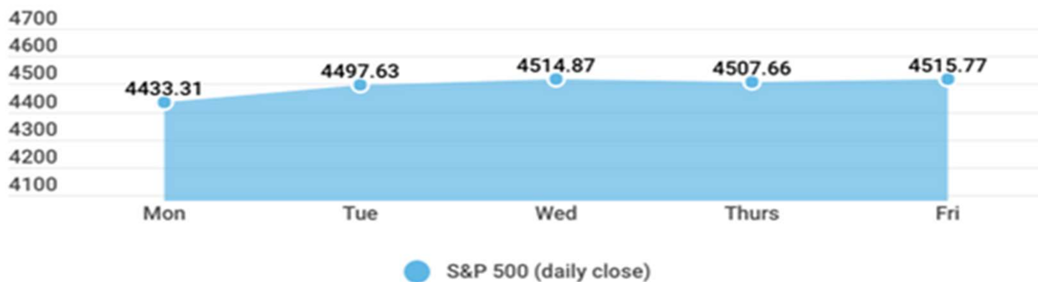
WEEKLY ECONOMIC UPDATE SEPT. 4, 2023

Falling bond yields–spurred by weak economic data–helped lift stocks to weekly gains.

The Dow Jones Industrial Average advanced 1.43%, while the Standard & Poor's 500 gained 2.50%. The Nasdaq Composite index increased 3.25% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, picked up 2.71%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	34,837.71	+1.43%	+5.10%
NASDAQ	14,031.81	+3.25%	+34.06%
MSCI-EAFE	2,109.16	+2.71%	+8.50%
S&P 500	4,515.77	+2.50%	+17.61%



	Treasury	Close	Week	Y-T-D
	10-Year Note	4.18%	-0.07%	+0.30%

Sources: The Wall Street Journal, September 1, 2023; Treasury.gov, September 1, 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, August 25, to Friday, September 1 close. Weekly performance for the MSCI-EAFE is measured from Friday, August 25, open to Thursday, August 31 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Stocks Rise on Slowing Economy

Investor sentiment turned positive last week as signs of economic softness were interpreted as reason for the Fed to hold off on further rate hikes. A downward revision of Q2 economic growth and fresh signs of a cooling labor market reversed the recent rise in bond yield. They helped trigger a stock bounceback following Fed Chair Powell's speech at Jackson Hole the previous Friday.

It wasn't all about bad news being viewed as good news, though. A series of solid earnings reports, an announcement by one mega-cap tech name introducing pricing for its AI tools, and fresh inflation data–in-line with market expectations–further boosted enthusiasm for stocks.

Signs of Labor Cooling

Despite historic monetary tightening, the labor market has exhibited remarkable resilience, but last week's employment data showed a cooling trend.

Job openings declined to their lowest level since March 2021, though they remained above pre-pandemic levels. Meanwhile, a survey of private sector hiring showed a slowdown in hiring, with employers adding 177,000 jobs in August–below the 371,000 added in July and short of economists' forecast of 200,000.[4,5]

Finally, the government's monthly employment report showed the number of nonfarm payroll gains continued to decelerate in August, while June and July estimates were revised lower by 110,000.[6]

This Week: Key Economic Data

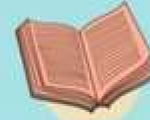
Tuesday: Factory Orders.

Wednesday: Institute for Supply Management (ISM) Services Index.

Thursday: Jobless Claims.

Friday: Consumer Credit.

Quote of the Week



"Fiction is the lie through which we tell the truth."

– Albert Camus

Of Note

United States Secretary of Treasury Janet Yellen has an incredible job. She writes rubber checks to pay America's bills. Yet, somehow, the rubber checks don't bounce. Instead, like magic, they clear.

How this all works, considering the nation's technically insolvent, is quite miraculous. But it works, nonetheless. Again and again, the Treasury borrows money. And Washington spends it.

Yellen likely knows that full faith and credit is too good to be true. The U.S. government's gross fiscal mismanagement should call the veracity of its notes into question. But why focus on it when there's an abundance to be acquired from weekly Treasury bill auctions?

On a recent trip to China, Yellen was spotted by a local food blogger consuming a plate of magic mushrooms. An aide to Yellen later confirmed that she did, indeed, order them. The restaurant's "staff said she loved [the] mushrooms very much. It was an extremely magical day."

We don't know what their acute effects on Yellen were, while she was in Beijing. But the mushrooms appear to be contributing to her chronic hallucinations about the U.S. economy's current health. Recently, for example, while attending the G20 meeting in India, Yellen remarked: "For the United States, growth has slowed, but our labor market continues to be quite strong. I don't expect a recession. The most recent inflation data

were quite encouraging."

These, no doubt, are the fantasies of a person under the influence of mind-altering chemicals. Either that, or her mind has turned soft over decades of working as a professional economist for the Federal Reserve and the Treasury.

The unemployment rate reported by the Bureau of Labor Statistics (BLS) is, in fact, just 3.6 percent. Yellen can celebrate the data point. But the quality of the jobs being created is not the type that will drive economic growth.

Higher-paying technology and finance jobs are being purged. While leisure, hospitality, and government are the sectors contributing to employment growth. These jobs may be important. Still, they will not create new wealth or help America compete with its global rivals.

Yellen, while under the influence, also remarked that she doesn't expect a recession. Maybe this is why we should expect one. Her predictive acumen has missed the target in the past. If you recall, in 2017 she said she did not believe another financial crisis would happen in our lifetime. Since then, we've had one financial crisis after another, including the most recent bank failures this spring.

Bank of America recently reported its bond losses in the second quarter increased $7 billion to nearly $106 billion. And Starwood Capital Group just defaulted on a $215.5 million mortgage on an Atlanta office tower. Probably nothing to worry about, right?

In addition, Taiwan Semiconductor Manufacturing Company (TSMC), the mega chip maker, recently reported its first profit drop in 4 years. Revenue slipped 10 percent from a year ago. What's more, net income fell 23.3 percent. Wasn't AI supposed to drive silicon wafer production to commanding heights?

With respect to what Yellen called 'encouraging inflation data', she was likely referring (while under the influence) to the recent CPI report from the BLS, which showed that in June, consumer prices increased at an annualized rate of 3 percent. This is still 50 percent higher than the Fed's arbitrary inflation target.

Moreover, the energy commodities component showed a 16.7 percent price decline over the last year. This has coincided with President Biden draining the Strategic Petroleum Reserve to a 40-year low. Without these short-sighted actions, the current inflation data would be much less encouraging.

In short, the U.S. economy's prospects do not quite align with Yellen's positive outlook. And if you look out further than just the current data reports, you'll be greeted with a structural crisis of significant

consequence.

In fact, simple arithmetic quickly reveals the precarious predicament the 118th Congress is putting the American people in. The Treasury Department, the agency Yellen oversees, recently reported that for the first 9 months of the 2023 fiscal year, the federal government ran a budget deficit of nearly $1.4 trillion. That's a 170 percent increase from the same period last year.

The big surprise, however, was that interest on Treasury debt securities for the first 9 months of FY2023 topped $652 billion. A 25 percent increase for this period a year ago. Rapid and repeated interest rate hikes by the Fed to contain the raging price inflation of its own making, has blown out the interest owed on Treasury debt. Anyone with half an inkling knew this was coming from miles away.

The growth of federal debt has been out of control for decades. But the rate of debt growth in the 21st century has rapidly accelerated. The solution that's commonly offered by the politicians for getting a handle on Washington's debt problem is for the economy to somehow grow its way out. Countless policies over the years have generally involved borrowing money from the future and spending it today.

Yet economic growth never manages to outpace the debt increases. Instead, the debt piles up higher and higher with each passing year. The simple fact is you can't grow your way out of debt when the debt's increasing faster than gross domestic product (GDP).

For example, in 2000 the federal debt was about $5.6 trillion, and U.S. GDP was about $10 trillion. Today, the federal debt is over $32.5 trillion, and GDP is about $26.5 trillion. In just 23 years the federal debt has increased by over 480 percent while GDP has increased just 165 percent.

Recently, the Peter G. Peterson Foundation attempted to characterize the $32 trillion federal debt. The number is so large it is difficult to comprehend. Here is some of what the foundation came up with: The $32 trillion debt is more than the combined values of the economies of China, Japan, Germany, and the United Kingdom. It represents $244,000 per household or $96,000 per person in America. And if every household contributed $1,000 per month towards paying down the national debt it would take over 20 years.

Without question, Washington has run up an impossible tab. Yet, what does it have to show for all this recklessness? America's cities are decaying from the inside out. The infrastructure is crumbling. The country has been involved in one overseas quagmire after another. And the populace is struggling with gender identification pronouns.

The political will to stop this massive debt pileup has been nonexistent. Democrats and Republicans (the so-called uni-party) have both spent like drunken sailors. There's been no tradeoffs or compromises to cut spending. There's been zero effort to balance the budget. And now it's too late.

As mentioned above, interest on Treasury debt securities for the first 9 months of FY2023 topped $652 billion – a 25 percent increase from a year ago. But this is just the beginning. As interest rates continue to rise, the annual interest on Treasury debt will soon pass $1 trillion. That would put this line item on par with outlays for Social Security, the U.S. government's largest expenditure. This would also put spending on interest payments above the combined spending for research and development, infrastructure, and education.

By repeatedly borrowing and spending money, piling up massive debt, and then being forced to jack up interest rates, Washington has essentially ruined America's future.[7]

Footnotes and Sources

1. The Wall Street Journal, August 25, 2023
2. The Wall Street Journal, August 25, 2023
3. The Wall Street Journal, August 25, 2023
4. The Wall Street Journal, August 29, 2023.
5. CNBC, August 30, 2023.
6. The Wall Street Journal, September 1, 2023.
7. economicprism.com/how-washington-ruined-americas-future/#more-8747

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The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

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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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