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: Markets sag, job numbers soar.*

# Weekly Economic Update

*Presented by Ed Papier, September 5, 2022*

## THE WEEK ON WALL STREET

The overhang of Fed Chair Powell's Jackson Hole speech the previous week carried over into last week as investors recalibrated stock valuations amid a seemingly more assertive monetary policy stance.

The Dow Jones Industrial Average fell 2.99%, while the Standard & Poor's 500 stumbled 3.29%. The Nasdaq Composite index lost 4.21%. The MSCI EAFE index, which tracks developed overseas stock markets, slid 4.90%. [1,2,3]

## STOCKS EXTEND LOSSES

Investors remained unnerved by the aggressive tone of Jerome Powell's speech and subsequent comments from Fed officials suggesting a higher rate hike than the market expected at the Fed two-day meeting ending September 21. The probability of a 75 basis point hike in September rose to nearly 65%, up from just 28% a month ago. [4]

Stocks moved steadily lower before finding some footing on Thursday. Friday's employment report appeared to strike a "goldilocks" note (i.e., labor gains not so strong that it might trigger greater Fed hawkishness but robust enough to allay imminent recession fears). After early gains, stocks turned lower ahead of the holiday weekend.

## EMPLOYMENT SHINES

Employers added 315,000 jobs in August, maintaining the labor market's remarkable resiliency amid a contracting economy. The unemployment rate rose to 3.7%, up from last month's 3.5%. The gain followed an uptick in the labor participation rate, which expanded from 62.1% to 62.4%. Wages continued to grow, rising 0.3% in August and 5.2% from 12 months ago. [5]

Sectors seeing the most significant increases in new jobs were professional and business services, healthcare, and retail. Lagging sectors were manufacturing, financial, and wholesale trade. [6]

## THE WEEK AHEAD: KEY ECONOMIC DATA

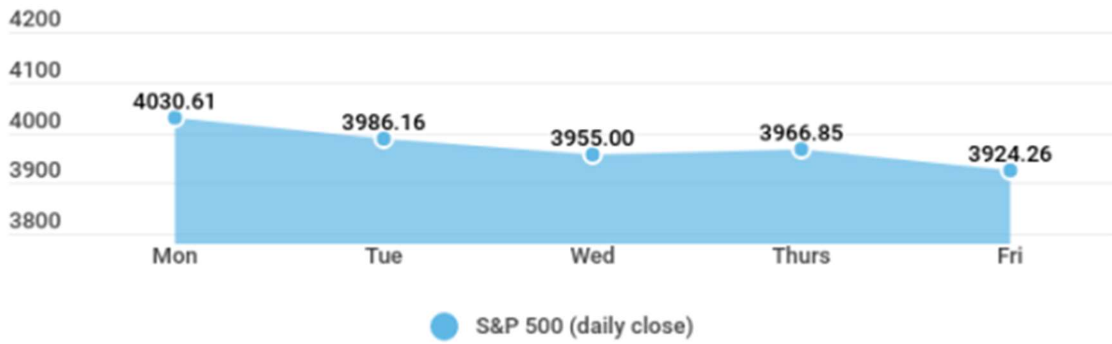
Tuesday: Institute for Supply Management (ISM) Services Index.
Thursday: Jobless Claims.

## QUOTE OF THE WEEK

*"I would rather be governed by the first 2,000 people in the telephone directory than by the Harvard University faculty"*

*WILLIAM F. BUCKLEY JR.*

| Market Index | Close | Week | Y-T-D |
|---|---|---|---|
| DJIA | 31,318.44 | -2.99% | -13.81% |
| NASDAQ | 11,630.86 | -4.21% | -25.66% |
| MSCI-EAFE | 1,790.17 | -4.90% | -23.37% |
| S&P 500 | 3,924.26 | -3.29% | -17.66% |




| | Treasury | Close | Week | Y-T-D |
|---|---|---|---|---|
| | 10-Year Note | 3.20% | +0.16% | +1.68% |

Sources: The Wall Street Journal, September 2, 2022; Treasury.gov, September 2, 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, August 26, to Friday, September 2, close. Weekly performance for the MSCI-EAFE is measured from Friday, August 26, open to Thursday, September 1, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

## OF NOTE

In the past stock markets used to rely on the innovation and profit reports of individual companies, and while there were sometimes all-encompassing events that would push equities in one direction or another, in the last decade there has been only one factor that ever really matters: The Federal Reserve.

The central bank has positioned itself as the ultimate arbiter of market rallies and corrections. In fact, most of the world is now placing all their investment bets on a single hope, that the Fed will capitulate on interest rate hikes, ignore the stagflation crisis and ramp up the printing presses once again with wild abandon.

This is the sad state of most markets around the world and American markets in particular. Investors have enjoyed what amounts to a free ride for more than a decade based on the simple premise that the Fed will "never" allow stocks to crash again. This assumption is predicated on the idea that the Fed actually cares about the continued stability of the markets.

After the latest Fed interest rate hike the speculation mills are swirling that the central bank will back off of rates as soon as November and refresh the easy money punch bowl. But we need to consider a question that almost no one is out there asking: What if they stopped caring? What if they never cared and stimulus measures were actually meant to achieve a separate agenda that is now finished? What if the Fed doesn't capitulate? What if they just keep hiking?

The original rationale given for rate cuts and QE measures was to offset wealth destruction caused by the 2008 credit crash. The scheme was NOT supposed to continue onward with new stimulus every year or every time stocks lost 10%-20%. Yet, that is exactly what happened. Today, 14 years later, market investors are utterly addicted to near-zero rates and an endless supply of cheap fiat. Stocks cannot sustain their value otherwise.

The root driver of markets for several years has been the uninterrupted flow of near zero-interest loans into corporate coffers which are then used for stock buybacks (when a company buys their own stock to reduce the number of shares available, thus artificially inflating the value of the shares that are left in circulation). If the Fed raised rates on these loans and cuts stimulus for an extended period of time, then stocks WILL crash. It's inevitable. Fed Chairman Jerome Powell is well aware of this dynamic. He even warned about it specifically during the Fed's October 2012 meeting.

Powell blatantly referred to the Fed's machinations as 'our short volatility position.' In other words, he admits that stocks have been artificially inflated into a bubble by constant interference in natural price discovery. And he even suggests that this behavior is dangerous in the long run as he asks 'what happens when we stop buying'?

The Fed has now essentially stopped buying and we have seen markets drop around 20% since. Whenever stocks spike (or at least stop falling) it's only because of rumors that the Fed will reverse course. This has created a serious potential for a negative feedback loop. Markets will continue to expect Fed capitulation and investors will buy until November; then, when the Fed hikes rates again, investors will sell in a panic. The potential for abuse by certain institutions is very high – Anyone with influence in the media could easily plant a rumor that the Fed is about to back off of rates and pump-up equities through misinformation.

The Fed did not reverse course during the Great Depression, and this led to an extended period of deflationary crisis. Of course, back then, they didn't have a stagflation problem staring them down. Today, with official price inflation at 40-year highs and unemployment at incredible lows (due to over $6 trillion in covid helicopter money), the central bank has every excuse to continue rate hikes well into 2023. There would have to be a dramatic flood of deflationary indicators and job losses to justify capitulation so soon.

And, again, what if the Fed stopped caring about stocks? What if they prefer a crash to occur? Assuming the Fed has the economy's best interests at heart seems like an epic and foolish mistake.

The Catch-22 reality of our economy needs to be addressed and this is just not happening. No one in the mainstream wants to admit that either way the Fed goes, there will be disaster. They can hike rates and cut stimulus and markets will plunge while job losses explode, or they can roll over and bring back the money spigot resulting in even higher prices on everything. There is no third option. There is no soft landing.

The only way to determine which way the Fed will go is to consider which path makes the Fed look like it TRIED to save the day? Does cutting rates and pumping out more stimuli make them seem more responsible, or does continuing on the rate hike path give them deniability as stagflation becomes entrenched?

The Fed answers to no one when it comes to policy. Not the White House, not Congress, not the GOA, no one, as Alan Greenspan once openly admitted. So, it is the Fed that is culpable for the mess we are in, along with all the politicians that protect them from public scrutiny and encourage their degradation of the economy. It makes sense that at this stage in the game the Fed's only concern will be to make themselves look like battle worn heroes who tried to save the day, but just couldn't overcome the tidal wave of financial collapse. [7]

---

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 2, 2022
2. The Wall Street Journal, September 2, 2022
3. The Wall Street Journal, September 2, 2022
4. The Wall Street Journal, August 29, 2022
5. CNBC, September 2, 2022
6. CNBC, September 2, 2022
7. zerohedge.com/markets/what-happens-if-fed-doesnt-capitulate-interest-rates