



WEEKLY ECONOMIC UPDATE AUG. 5, 2024

Stocks fell broadly last week as investors looked past upbeat Fed comments and focused on disappointing corporate reports and weaker-than-expected economic data.

The Dow Jones Industrial Average lost 2.20 percent, while the Standard & Poor's 500 Index fell 2.06 percent. The Nasdaq Composite Index dropped 3.35 percent. By contrast, the MSCI EAFE Index, which tracks developed overseas stock markets, gained 0.19 percent for the week through Thursday's close.¹

Volatile Week of Trading

Stocks were under pressure early in the week as investors appeared to focus on the Fed's meeting, which ended on Wednesday. It was a big week for Q2 corporate reports, with five of the ten largest names in the S&P 500 (by market capitalization) reporting numbers. But attention was mainly on the Fed's meeting.^{2,3}

Stocks rallied on Wednesday when Fed Chair Powell indicated a September interest rate cut was "on the table."⁴

But selling picked up on Thursday as investors' attention quickly shifted to disappointing corporate reports and weak economic data. Friday morning's disappointing June jobs report raised even more concerns about the economy's strength. The Nasdaq ended the week in correction territory, down more than 10 percent from its recent all-time high.^{5,6}



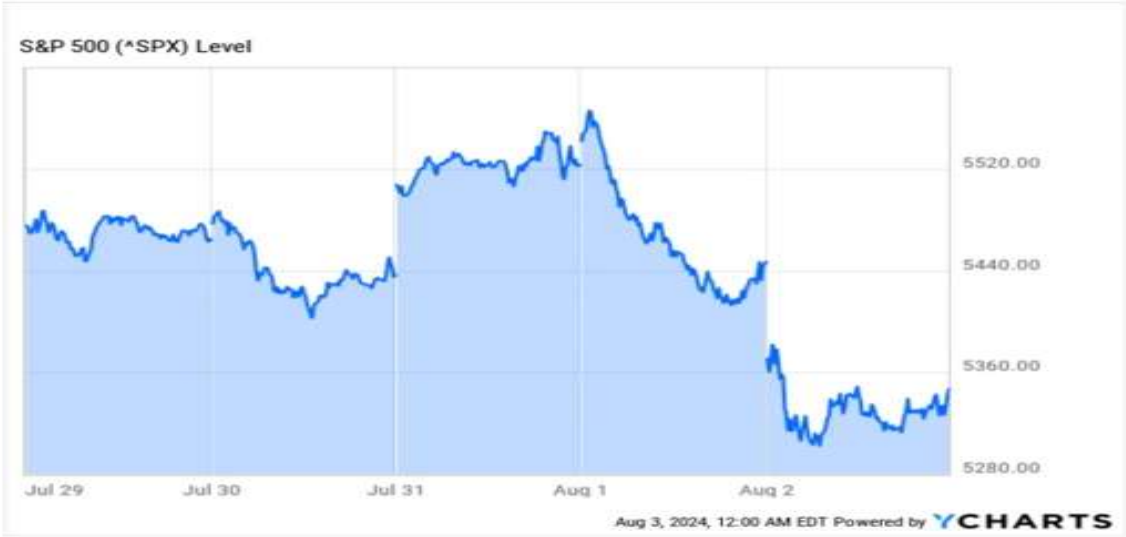
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	3.11%	8.19%	15.57%	68.64%
MSCI EAFE	1.03%	7.08%	11.04%	43.91%
Nasdaq Composite	-3.81%	15.00%	21.30%	120.9%
S&P 500	-0.43%	15.10%	20.80%	100.1%

S&P 500 Daily Close



10-Year Note Review

Indicator Name	Latest Value	1M Ago	1M Change
10 Year Treasury Rate	3.80%	4.43%	-14.22% ▼
Date		4.58%	-17.03% ▼
		4.08%	-6.86% ▼

Economic Concerns

Fresh economic data suggested weakening manufacturing, construction, and employment outlooks. On Friday, the Labor Department's July jobs report showed a sharper-than-expected job growth slowdown and an unemployment uptick to 4.3 percent—the highest rate in 2½ years.

At Wednesday's Fed press conference, investors welcomed Powell's unusually candid and upbeat comments. However, as the week progressed, investors started questioning whether the Fed was misreading the economy and moving too slowly in adjusting interest rates.⁷

This Week: Key Economic Data

Monday: ISM Services Index. Fed Official Mary Daly speaks.

Tuesday: International Trade in Goods and Services. Treasury buyback announcement.

Wednesday: Consumer Credit. EIA Petroleum Status Report.

Thursday: Jobless Claims. Fed Balance Sheet.

Quote of the Week



“Unthinking respect for authority is the greatest enemy of truth.”

– Albert Einstein



Central bank monetary tactics have proven to be a toxic remedy, amplifying rather than curing economic ailments. Like a surgeon whose operation only worsens the patient's condition, central banks administer policies that do more harm than good. Here are five ways central banks leave a legacy of financial turmoil.

Central banks' monetary policies are the most perverse government intervention. Their consequences are dire, last for a very long time, and people don't perceive them as problems or don't comprehend the damage they are doing. Monetary policy (monetary expansion and artificially low interest rates) has five main consequences that harm overall living standards. Price Inflation: This is the most obvious consequence, and yet, it is very misunderstood by voters. If the money that is effectively circulating in the economy (i.e., M1 and M2, or for a better perspective, the true money supply) increases, price inflation tends to increase. The expansion of the money supply destroys consumer purchasing power and makes people poorer over time.

Bigger Government: Government spending and indebtedness are intensified due to expansionary monetary policies (since central banks buy government bonds). More resources are allocated to pay for politicians' and bureaucrats' luxurious lives and for government programs that, at their best, are more expensive compared to a free market solution. Governments don't have an incentive to allocate the resources efficiently (since they can just raise taxes, go deeper into debt, or print money), so anything that it does ends up being more expensive than it would have been without monetary intervention.

Financial Assets Become Overpriced: Monetary policy is behind major financial crises and their precedent asset bubbles. The stock market is overpriced because artificially low interest rates raise the present value of corporations' future earnings, making their stocks go higher without having sound fundamental indicators. Artificially low rates also incentivize people to go into debt to buy stocks, which raises their prices. Plus, some central banks (like the Bank of Japan and the Swiss National Bank) have stocks on their balance sheets, which also appreciates their prices due to the artificial demand. Real estate prices become inflated as well. Houses and buildings are what Rothbard would call "higher order" goods due to their very long capital structure. He notes the supply of funds for investment apparently increases, and the interest rate is lowered. Businessmen, in short, are misled by the bank inflation into believing that the supply of saved funds is greater than it really is. Now, when saved funds increase, businessmen invest in "longer processes of production," i.e., the capital structure is lengthened, especially in the "higher orders" most remote from

the consumer. Overpriced real estate assets also turn houses, apartments, and commercial properties into an asset class (something to invest in and, in theory, protect oneself from the very inflation that caused the real estate prices to go up in the first place) rather than what they would be if it wasn't for the government's meddling: houses and apartments for living, and commercial properties for economic activities, either by renting or buying.

Economic Inequality: This one is linked to our previous argument. Thanks to loose monetary policy, financial assets appreciate without being backed by proper fundamentals. Richer people (the ones who have the most financial assets) get even richer not because their investments are improving companies' productivity (providing more or better goods and services), but because their assets are being inflated by monetary policy. The financial market turns out to be less accessible for the average Jane and Joe due to the following:

- Stocks are more expensive and risky and therefore less attractive for one who can't afford to lose a lot of money.
- The bond market is also less attractive since their prices go higher due to the artificial demand from the new money supply; hence, its rates go lower. This makes the bonds attractive for people who want to buy them as a speculation on their price (if rates go even lower, their prices go up and the investor makes a profit). Alas, since bonds are expensive, average people can't afford the risk.
- Financial markets become more complex since there are a lot more tricky instruments (like derivatives) to deal with market

volatility (which would be lower if not for government poking) or to increase returns (not without higher risks). And the use of such instruments by asset managers makes their expenses and fees go higher, which also increases their required minimal investments (excluding the less-fortunate people from the game).

Side note: government regulations for financial markets, like the ones of agencies like the Financial Industry Regulatory Authority (yes, this is a private corporation, but it is a monopoly imposed by the government) and the Securities and Exchange Commission, also increase required minimal investments.

So, the average Jane and Joe have fewer tools to get richer. And this keeps getting worse as long as central banks keep up with their dovish monetary policy. Housing also becomes less affordable, and average people must sacrifice a lot more (and for a much longer time) to save for buying a home. What would be a simple task turns into a long and tiresome effort. This diminished the number of first-time homebuyers, and young people had to delay it. But now, even people in their thirties are living with their parents or other relatives. And homelessness is increasing in major cities like Los Angeles and Lisbon (both foreigners and Portuguese people).

Higher Time Preference Equals Less Economic Growth and More Indebtedness: Artificially low interest rates destroy the incentive for savings. In many cases, even if price inflation is low, the return on savings does not compensate for the time that people didn't use the money. The overall time preference

gets higher. People are not willing to wait to spend their money. If there is no return, they might as well party right away. Indebtedness also increases for consumption instead of being used for investments that would increase productivity and economic growth. This also makes prices go higher than they would be because higher productivity tends to lower prices, and this process is, best-case scenario, delayed by lower savings. In other words, governments don't let deflation (which would make prices go lower over time) happen. Price inflation itself also creates an incentive to spend right away (since the purchasing power gets lower every year), and artificially low interest rates make the money market (which would be an easy tool people could resort to for parking their savings) not attractive. And, since overall time preference is higher, most people don't settle for just preserving their purchasing power. They want a fast and high return, a dangerous combination. So, they go to the stock market, which is overpriced thanks to a loose monetary policy, which was covered earlier.

Conclusion: Government interventions through central banks are the most destructive and yet the least understood by most people. It is a bad enough problem to deal with on its own, and even harder to do so when people fail to perceive its damage. Central banks are the source of most evils in the economy.⁸

Footnotes and Sources

1. The Wall Street Journal, August 2, 2024

2. The Wall Street Journal, August 2, 2024

3. S&P Global, July 31, 2024

4. The Wall Street Journal, July 31, 2024

5. The Wall Street Journal, August 1, 2024

6. CNBC.com, August 2, 2024

7. The Wall Street Journal, August 2, 2024

8. [schiffgold.com/guest-commentaries/5-ways-fed-medicine-is-worse-than-the-disease/](https://www.schiffgold.com/guest-commentaries/5-ways-fed-medicine-is-worse-than-the-disease/)

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. The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice. The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. 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. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility. Please consult your financial professional for additional information. This content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

Copyright 2024 FMG Suite.