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# WEEKLY ECONOMIC UPDATE JAN. 13, 2025

Stocks fell for the second consecutive week as a round of fresh economic data stoked inflationary fears among investors.

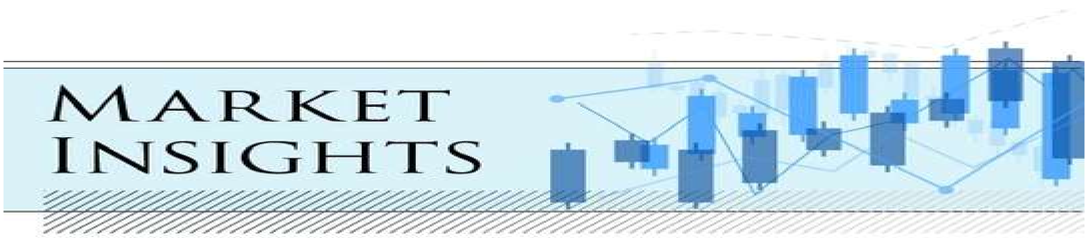
The Standard & Poor's 500 Index declined 1.94 percent, while the Nasdaq Composite Index dropped 2.34 percent. The Dow Jones Industrial Average lost 1.86 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, slipped 0.49 percent.[1,2]

Inflation Stymies Markets:
Stocks rallied broadly to start the week, but two economic reports on Tuesday—job openings and the prices-paid index among service companies—raised fresh inflation concerns. Higher Treasury yields also put pressure on stocks.[3,4]

Stocks flattened out on Wednesday. Investors reacted to news that most Federal Open Market Committee members agreed inflation risks had increased, per minutes from the Fed's December meeting.[5,6]

U.S. stock markets were closed Thursday in observance of President Jimmy Carter's funeral.

On Friday, a warmer-than-expected December jobs report caused investors to question whether the Fed will adjust rates in 2025. News that consumer sentiment ticked down also pushed stocks lower.[7]

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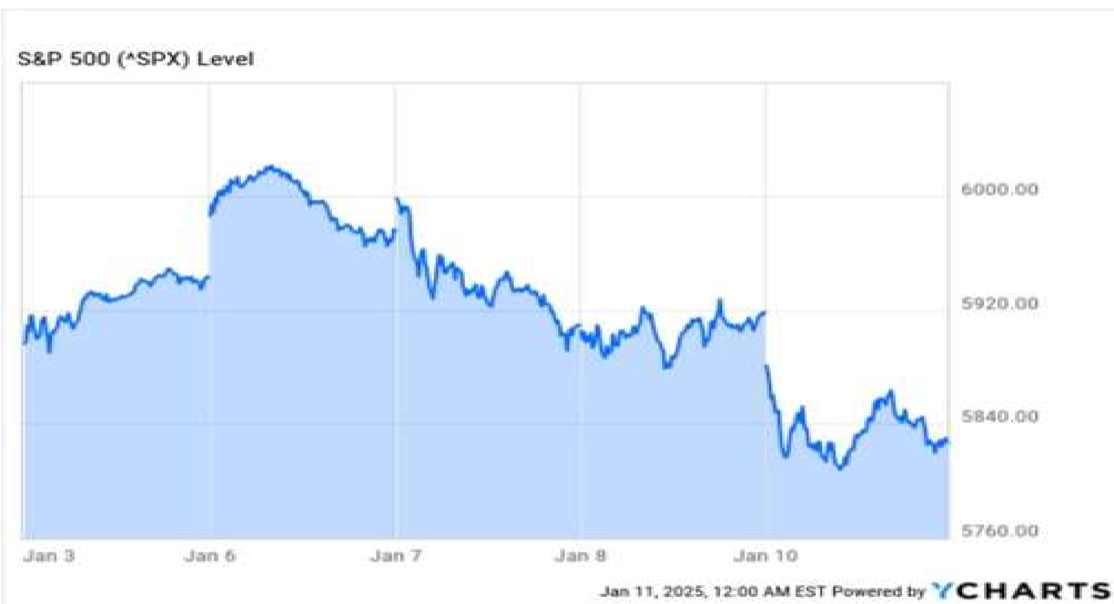
# Weekly Market Insights (WMI)

## Major Index Return Summary

| Name | 1M TR | YTD TR | 1Y TR | 5Yr TR |
|---|---|---|---|---|
| Dow Jones Industrial Average | -4.40% | 0.25% | 15.25% | 64.28% |
| MSCI EAFE | -3.76% | 0.44% | 6.33% | 29.66% |
| Nasdaq Composite | -1.86% | 0.88% | 32.17% | 121.9% |
| S&P 500 | -2.72% | 0.65% | 25.96% | 96.86% |

## S&P 500 Daily Close




## 10-Year Note Review

| Indicator Name<br>Date | Latest Value | 1M Ago<br>3M Ago<br>1Y Ago | 1M Change<br>3M Change<br>1Y Change |
|---|---|---|---|
| 10 Year Treasury Rate<br>01/10/25 | 4.77% | 4.22%<br>4.09%<br>4.04% | 13.03% ▲<br>16.63% ▲<br>18.07% ▲ |

When Good Becomes Bad News:
The economy added 256,000 jobs in December—100,000 more than economists expected. That's the second-highest monthly job gain for 2024. Unemployment ticked down to 4.1 percent, which was also better than anticipated.

Job growth and lower unemployment signals good news for the economy but bad news for the markets. A stronger jobs market puts less pressure on the Fed to adjust rates, especially with inflation top-of-mind among investors.[8,9]

This Week: Key Economic Data
Monday: Treasury Statement.
Tuesday: Producer Price Index. Fed officials Jeffrey Schmid and John Williams speak.
Wednesday: Consumer Price Index. Fed officials Thomas Barkin, Neel Kashkari, John Williams, and Austan Goolsbee speak. Fed Beige Book.
Thursday: Retail Sales. Import and Export Prices. Business Inventories. Homebuilder Confidence Index.
Friday: Housing Starts and Permits. Industrial Production.

*"So if we don't let athletes bet on games they have the ability to influence, why do we allow Congress to invest in companies they regulate?"*

– An Online Emoji

## Of Note

The MAGA folks are going to be in for a rude awakening. That's because Donald Trump has been taking to the public stage in recent weeks promising a new "golden age" of American prosperity upon his return to the Oval Office, but nearly the opposite may be just around the corner. What's actually coming down the pike is the UniParty's revenge— a financial and economic catastrophe that is likely to dwarf all that has gone before.

There is no mystery as to why. To wit, there is a demolition derby brewing in the bond pits that threatens to extinguish any faint remaining hope that Washington's Fiscal Doomsday Machine might be unplugged.

We are referring to the utter fiscal paralysis that stems from the combination of the GOP's addiction to tax cuts and Big Defense budgets and the Dem's demagoguery about Social Security, Medicare and the rest of the Welfare State. This means that down on the banks of the Potomac there is virtually no one left in the camp of fiscal rectitude. And, equally importantly, there is no political hay to be harvested by campaigning against the “borrow and spend” proclivities of an overweening central government, which has now become heavily insulated from the daily life of the people as they struggle to pay their bills and ward off the economic imprecations of inflation and taxes.

This embedded fiscal paralysis is actually something new under the sun, however. It was actually far different as recently as the late 1970s. Back then we found plenty of company among the GOP backbenchers in the US House as they launched full-throated political campaigns against the rising public debt and the “modest” rivers of red ink being incurred by “big spender” Jimmy Carter.

We employ the quote marks here because as it has turned out Carter’s biggest annual deficit in constant 2024 dollars of purchasing power was just $240 billion during the recession year of 1980. Given that the Federal deficit clocked in at $367 billion in the month of November 2024 alone, it can be well and truly said that the Washington UniParty is now capable of generating more red ink in 20 days than Jimmy Carter did during his worst year.

Of course, that outcome earned him in short order a one-way ticket back to Plains Georgia. Yet that electoral rebuke was no fluke nor was it even due to the superior campaigning style of the Hollywood B actor who displaced him. Back then the deficit had immediate ramifications on main street because the Fed was not yet monetizing the flow of Treasury paper. Accordingly, the Treasury Department's sharp elbows in the bond pits caused interest rates to materially rise and private sector borrowers to be "crowded out".

What existed until the era of Alan Greenspan and his subsequent heirs and assigns, therefore, was a form of politico-economic checks and balances. The Federal debt never really got out of hand because there was a feedback loop in the nation's governance process that motivated the GOP to function as the anti-government party and Watchdog of the Treasury against the Dem's self-designated role as the Government Party and champion of the people and the have-nots.

The resulting tolerable political equilibrium is more than evident in the post WWII path of the Federal debt claim on the GDP. After bouts of bipartisan wartime finance, the debt ratio came down with regularity, falling from the 120% WWII peak to a bottom of just 31% in the early 1980s. Indeed, it was only after Paul Volcker was given his walking papers in 1987 by the easy money man at the US Treasury, James Baker, that this debt-containing governance equilibrium finally failed.

The cause of the failure, of course, was the switch to massive monetization of the public debt by the Fed after Volcker's untimely departure. There was a bitter irony in that, indeed, because Volcker was a fiscal conservative, sound money man and steely opponent of monetizing the public debt for the convenience of the politicians in power.

That is, his stance was the very embodiment of what the Gipper had come to town to accomplish. Yet he got bamboozled by Baker into appointing as Fed Chairman a lapsed goldbug and shameless political opportunist who wanted nothing less than to be the toast of the town in Washington. This aspiration most definitely did not encompass allowing interest rates to clear the market at whatever level Washington's massive borrowing requirements dictated.

That is to say, once Greenspan put the Federal Reserve in the public debt monetization business on a big-time basis, the checks and balances system broke down because the feedback loop of rising interest rates and crowding-out was short-circuited. The subsequent history speaks for itself—the public debt claim on GDP has been on a relentless uphill climb ever since and regardless of which party controlled the Congress and/or White House.

Yet this 37-year free lunch interregnum is about ready to expire. The Fed has printed itself into a corner and is no longer in a position to resume monetizing the debt. Stubbornly embedded goods and services inflation will likely keep the Fed's printing presses idle for years to come. Moreover, despite the good intentions of the DOGE boys and the alarms about runaway Federal spending and borrowing they are managing to get into the public discourse through X and other alternative media, we still are a democracy of laws. That means without sweeping statutory changes in entitlements and drastically reduced annual appropriations for defense and nondefense discretionary spending alike, the nation's Fiscal Doomsday Machine will crank forward, pushing the public debt skyward.

In fact, the Madisonian Contraption of deep governmental checks and balances which has served the nation so well over the last 236 years means that on fiscal matters aligning 218 votes in the House, 51 votes in the Senate and a presidential signature is virtually impossible, as will be evident during the first 100 days of the second Trump Administration.

Specifically, the current debt ceiling suspension ended on January 1st and there is no hope of it being extended or lifted in a U.S. House divided by just one vote on a red/blue basis. Rightfully, the 30-40 remaining GOP fiscal hawks are not going to sign-up for an open-ended renewal of the suspension or an outright increase in what will be the nation's $36.3 trillion debt ceiling. It will surely ignite the greatest game of political "chicken" ever witnessed on the banks of the Potomac.

That is to say, the US Treasury is sitting on a $800 billion pile of cash, along with availability of a few hundred billion more owing to one-time intergovernmental borrowing and lending games. However, both of these sources of cash and borrowing to pay Uncle Sam's bills will be drawn down toward zero at a rapid rate during the first half of 2025 as the UniParty politicians line up in a circle on the banks of the Potomac taking aim and each other and most especially the White House occupant.

And we do mean that what impends is a perilous game of political chicken in the face of a rapidly depleting hoard of cash. To wit, just in the first two months of FY 2025 through November, cumulative spending has come in at $1.253 trillion versus receipts of just $629 billion. The resulting $624 billion of red ink amounted to $10 billion of new borrowing each and every day—including weekends, holidays and adverse weather days.

That's right. The US Treasury's current cash burn rate is the real revenge of the UniParty. It ensures that whatever the Trump Administration and its DOGE advisors might have had in mind on the fiscal front will be quickly overtaken by the Mother of All Debt Ceiling Crises within months and weeks of the inauguration.

Moreover, without the Fed coming to the rescue, interest rates were already fixing to soar— even before the debt ceiling crisis was front and center after January 1st. And if the GOP seeks to move Trump's $5 trillion tax cut bill on Capitol Hill, the revenge of the bond vigilantes will be even more virulent.

The handwriting is already on the wall. The yield on the 10-year UST is up 100 basis points since September 18th despite the Fed cutting the overnight rate by 100 basis points during the same three-month period. That is to say, the Fed is not clearing the bond pits of new government debt paper which is now flowing at a $3 trillion annual rate.[10]

# Footnotes and Sources


1. The Wall Street Journal, January 10, 2025

2. Investing.com, January 10, 2025

3. CNBC.com, January 6, 2025

4. The Wall Street Journal, January 7, 2025

5. CNBC.com, January 8, 2025

6. MarketWatch.com, January 8, 2025

7. CNBC.com, January 10, 2025

8. The Wall Street Journal, January 10, 2025

9. TradingEconomics.com, January 10, 2025

10. zerohedge.com/political/david-stockman-brewing-us-debt-ceiling-crisis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