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WEEKLY ECONOMIC UPDATE JULY 29, 2024

Stocks had a mixed, see-saw week as disappointing corporate reports unsettled investors who appeared to rotate away from some leading groups in favor of other names.
The Dow Jones Industrial Average picked up 0.75 percent. Meanwhile, the Standard & Poor's 500 Index declined 0.83 percent, and the Nasdaq Composite Index dropped 2.08 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, fell 1.49 percent for the week through Thursday's close.[1]

Q2 Corporate Reports Start
Last week began with some positive momentum, but after Tuesday's close, two influential tech companies reported disappointing Q2 numbers, which soured sentiment. On Wednesday, the S&P dropped 2 percent, and the Nasdaq fell more than 3 percent.

Stocks attempted to rebound on Thursday on news that gross domestic product grew much faster than expected in Q2, but sellers swooped in near the close.[3]

Stocks rallied broadly on Friday after a positive inflation report. The personal consumption expenditures index, widely considered the Fed's preferred inflation measure, showed only a slight uptick in June—in line with expectations.[4]

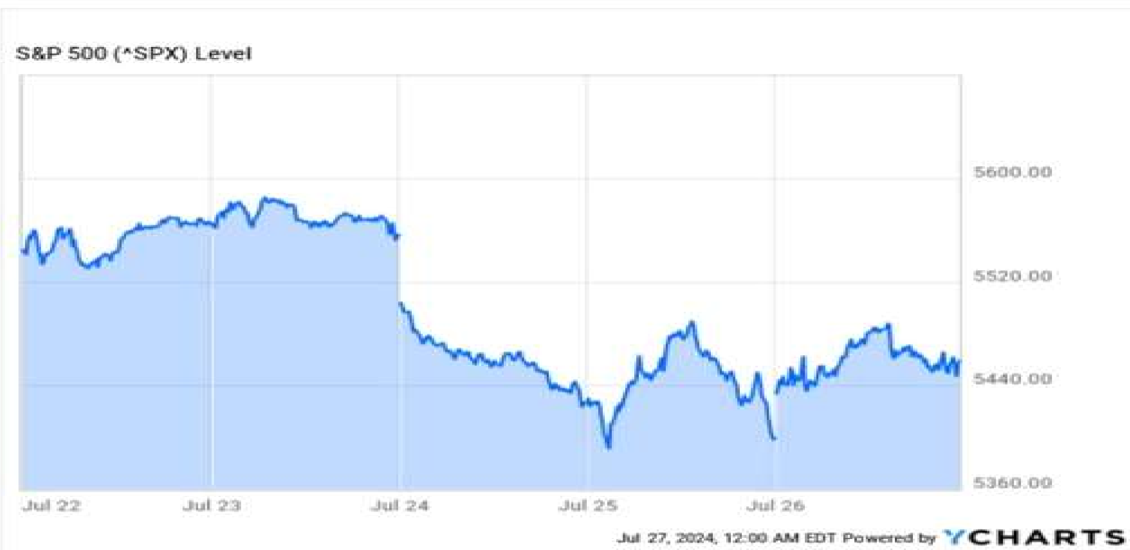
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	2.21%	7.09%	15.01%	63.50%
MSCI EAFE	-0.15%	6.29%	9.94%	41.04%
Nasdaq Composite	-3.00%	14.90%	22.41%	117.3%
S&P 500	-1.20%	14.08%	19.99%	95.09%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 07/26/24	4.20%	4.32% 4.67% 3.86%	-2.78% ▼ -10.06% ▼ 8.81% ▲

Watch the Rotation
July 26 saw the end of the third consecutive week in which the Dow led the other two averages and its fourth straight week of gains.

At the same time, the S&P and Nasdaq have been under pressure, with both posting losses for the second consecutive week.

So far in July, the Dow is up nearly 4 percent, the S&P is down slightly, and the Nasdaq is off by over 2 percent. That's a marked change from earlier in the year when the Nasdaq led.[5]

This Week: Key Economic Data
Tuesday: FOMC Meeting Begins. Consumer Confidence. Case-Shiller Home Price Index.
Wednesday: Treasury Refunding Announcement. ADP Employment Report. Pending Home Sales. FOMC Announcement. Fed Chair Press Conference.
Thursday: ISM Manufacturing Index. Jobless Claims. Productivity and Costs. Construction Spending.
Friday: Employment Situation. Motor Vehicle Sales. Factory Orders.

"The beginning of wisdom is the ability to call things by their right names."

– Confucius

Of Note

The announcement that national output grew faster than expected in the second quarter should have generated some relief and optimism. Oddly, it did not. The news was greeted by Wall Street and Main Street as no big deal. In fact, the broader stock market indexes were down, including S&P and Nasdaq, before recovering some losses.

Why might this be true? Normal intuition might suggest that a glowing gross domestic product (GDP) report would infuse the financial markets with optimism about economic growth and that this would be a big buy signal. This does not seem to have happened.

Part of the reason is that the data now coming out from the federal government has become highly suspect. The jobs data, the inflation data, and even the GDP data has become a tool for political propaganda. Indeed, this was how it was immediately deployed. This is a rather new trend, but it is well known.

In this case, the GDP data is reported in “real” terms meaning adjusted for inflation. But the inflation adjustment used in this case is not the consumer price index (CPI), which rose 2.8 percent over the period (which is wildly underestimated). Instead, the GDP uses a statistical category called Personal Consumption Expenditures (PCE), and during that period estimates inflation at a much lower level of 2.3 percent. Replacing one with the other zeroes out the gain.

In other words, this is a minor statistical issue having to do with how we calculate inflation. Neither the CPI nor the PCE state the real rate of inflation because they both exclude real home prices, interest rates, an accurate and plain reading of health insurance or home insurance, and do not account for added fees or shrinkflation, which is a major way in which inflation has expressed itself. The PCE is the best-possible source from the government's point of view.

If the data were adjusted by an actual accurate number, the growth would vanish. That's not only true in this reporting period but every reporting period for three years now. The understatement of inflation has a devastating and distorting effect on this data. Everyone with skin in the game knows this. In other words, it makes no sense to count dollars and cents changing hands as economic growth if those dollars and cents are losing value dramatically, perhaps 20 percent but as much as 50 percent or more, depending on the sector, over the last four years. How might the data be revised in light of this reality? Economists are working on this very issue right now.

Added to that we have the major problem that government spending has hit wartime-level increases over four years, exceeding that of the second world war. All of this spending is counted as economic growth and has been since the 1930s. In normal times, provided government spending increases at a stable level, this is not a problem. But when there is a sharp and sudden change in the trend line, the data becomes seriously distorted.

Federal debt as a percentage of Gross National Product has hit new records. This discredits all the GDP reports coming out right now. This is not an unknown fact. It remains as high today as it was in 1946.

Economists have known for many decades that data from wartime is unreliable. The notion that World War II granted U.S. prosperity is so preposterous as to refute itself. The nation sacrificed enormously during that period. Patriotism was high but prosperity was not. Rationing tickets governed the shopping experience. Deprivation was everywhere in sight. Men had been drafted into war and were missing from communities. This is the nature of wartime. Call it what you want but economic growth is not the first thing that comes to mind. Indeed, the Great Depression did not truly end until the war's end. What, then, can be said about this strange period in which debt-to-GDP reached wartime levels? How much has that distorted our data?

There is another problem with the data. It is not as stable and integrated over time as it once was. This is because the lockdowns of 2020 blew up all the normal metrics, from jobs numbers to output following a reasonably predictable pattern.

But with lockdowns, everything about this undertaking went haywire, including even the ability to collect the data itself. As a result, the data is no longer considered credible, essentially by anyone. The lead offenders here are the reporting on jobs and price increases. The errors are so extreme at this point that the reporting itself is largely disregarded as not serious. And this widespread incredulity has affected GDP data too, to the point that the latest releases have been reduced to statistical noise.

Buried deep in the data, for example, are records of factory orders. Those are hard to fake. New orders have collapsed. E.J. Antoni comments: “The collapse of new orders for durable goods was bad enough for June, wiping out all the gains since Nov ’21, but adjusting for inflation over the last several years tells the real story: orders aren’t up 8.0% since Jan ’21—they’re down 12.8%.”

There is another consideration too. Even if the releases are not considered serious or true, everyone is aware that the policies of the Federal Reserve are still affected by them. And the financial markets are certainly swayed by the perception of what the Fed may or may not do.

Right now, the extreme bubble in stocks is looking for another credit fix. As a result, the Fed is under extreme pressure to lower rates. This is why bad news is sometimes treated as good news: an excuse for more monetary infusions. Good news is regarded as bad news: the seeming elimination of the rationale for lower rates.

Crawling into this strange market psychology is the only way to make sense of any of this. And all of it contributes to the sense that nothing is truly real anymore and that all data releases are nothing more than fake news. This attitude is now pervasive in all financial markets. And one can observe that it is not incorrect.

As a result, the GDP data release last week had all the impact that one might expect in a post-truth world of finance. No one believed it but the issue was whether and to what extent this data release would provide some kind of excuse for the Fed to speed up the timeline on its rate cuts. It seems not to have achieved that.

A lesson we've learned over several years of watching official data mongers work is to greet all such large data sets with a degree of skepticism. It's true in this case too. You know more about "the economy" than anyone in Washington, D.C. That's important to remember; trust what you can verify with your own eyes and experience and maintain doubts about everything else that claims to describe your reality better than you can yourself.

There are signs of economic life, but we are long past believing that any large data set assembled and distributed by administrative agencies can capture them.[6]

Footnotes and Sources

1. The Wall Street Journal, July 26, 2024

2. The Wall Street Journal, July 26, 2024

3. The Wall Street Journal, July 25, 2024

4. CNBC.com, July 26, 2024

5. The Wall Street Journal, July 26, 2024

6. theepochtimes.com/opinion/where-are-the-signs-of-economic-life-5694140

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