



WEEKLY ECONOMIC UPDATE JUNE 10, 2024

Stocks rose last week despite conflicting stories from economic reports.

The Dow Jones Industrial Average inched up 0.29 percent while the Standard & Poor's 500 Index powered ahead 1.31 percent. The Nasdaq Composite led, picking up 2.38 percent. The MSCI EAFE Index tracks developed overseas stock markets and rose 1.29 percent for the week through Thursday's close.¹

All Eyes On The Jobs Report

Weak manufacturing data prompted declines early in the week, reflecting investor concerns over the economy's strength. But stocks rallied in anticipation of the jobs report on Friday.

However, the market reaction was mixed when the stronger-than-expected jobs report finally came. The S&P 500 touched a record high intraday before profit-taking late in the session.^{2,3}

MARKET INSIGHTS



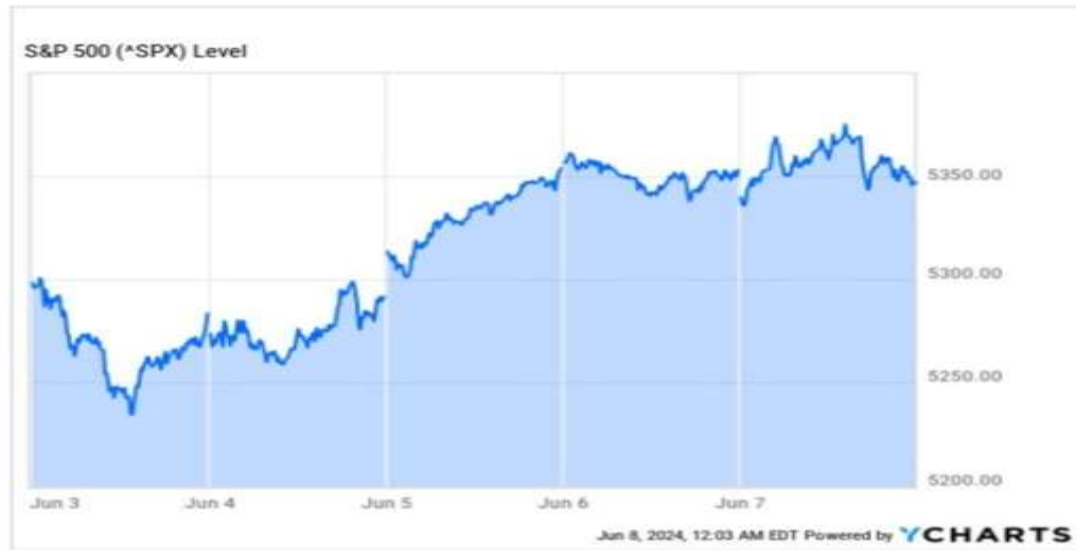
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Weekly Market Insights (WMI)

Major Index Return Summary

| Name | 1M TR | YTD TR | 1Y TR | 5Yr TR |
|-------------------------------------|-------|--------|--------|--------|
| Dow Jones Industrial Average | 0.39% | 4.09% | 18.20% | 68.03% |
| MSCI EAFE | 3.63% | 8.90% | 17.01% | 49.83% |
| Nasdaq Composite | 5.15% | 14.76% | 30.33% | 135.0% |
| S&P 500 | 3.49% | 12.91% | 26.85% | 104.4% |

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 06/07/24 | 4.43% | 4.47% 4.09% 3.79% | -0.89% ▼ 8.31% ▲ 16.89% ▲ |

The Catalyst That Wasn't

The week closed with a jobs report that underscored the economy's resilience while highlighting the data's mixed nature.

The 272,000 jobs added in May were higher than the 190,000 economists expected. At the same time, wages rose 4.1 percent from a year ago. The strong jobs report and surprise wage increase supported the narrative that the Fed may now wait longer before considering a move on interest rates.⁴ Although inflation now exceeds the central bank's 2 percent target, the jobs report suggests that economic growth remains powerful despite higher short-term rates.⁴

This Week: Key Economic Data

Monday: 3-Month Treasury Bill Auction.

Wednesday: Consumer Price Index. FOMC Announcement. Fed Chair Press Conference.

Thursday: Jobless Claims. Producer Price Index (final). Fed Official John Williams speaks.

Friday: Consumer Sentiment. Fed Official Austan Goolsbee speaks.

Quote of the Week



“You should never assume malice where incompetence will suffice”

– Robert J. Hanon

Of Note



The long-term forecast for higher interest rates, according to Treasury Secretary Janet Yellen, makes it more difficult to control US borrowing needs, which emphasizes the significance of raising revenue in the forthcoming budget talks with Republican lawmakers. There is only one problem. She is wrong.

According to the Congressional Budget Office (CBO) baseline, which does not assume a single year of recession and already counts with record tax revenues, the 2025 primary deficit will reach \$851 billion, while net interest outlays will rise to \$951 billion. Furthermore, the minimum expected primary deficit from 2025 to 2034 will be a staggering \$676 billion with \$1.2 trillion of net interest outlays, while the average annual deficit will likely be above \$700 billion. The accumulated figures are even more concerning. The CBO estimates that the aggregate primary deficit in the 2025–2034 period will reach a brutal \$7.4 trillion, with accumulated interest expenses of \$12.4 trillion. We must remember that the CBO baseline estimates no recession and constantly rising tax receipts above the record 2024 level.

If the CBO's optimistic estimates lead to the conclusion that deficits and interest expenses are going to soar in a booming economy, it is evident that no revenue measure is going to end this disastrous trend.

Those who say that revenue measures will cut the deficit have a problem with mathematics and reality. There is no revenue measure that will generate \$700 billion in additional receipts every year. Furthermore, there is no revenue measure that will generate those additional annual revenues, regardless of the economic cycle. A single year of recession could destabilize the administration's optimistic estimates.

The United States' unsustainable budget deficit is a problem, and interest expenses are rising because the government rejects any form of budget discipline. The administration believes that all expenses are necessary but too low, and that your hard-earned money is excessive and should be subject to higher taxes.

Deficits are always a spending problem. Only interventionist bureaucrats assume that revenues are the issue. Tax revenues are cyclical, and expenditures consolidate and rise faster than revenues because the administration never gets enough. When the economy soars, governments spend more, and when the economy weakens, they spend even more, making deficit spending a burden on the economy that leads to discontent in recessions and expansion periods. We are witnessing a deadly proposal for the U.S. economy. The government rejects any possibility of administering and

balancing the budget. The unsustainable deficit is printing money, resulting in higher taxes and likely persistent inflation. You are poorer, and the government becomes larger every year.

Keynesianism is the destruction of the middle class. By printing money and bloating deficits and spending, the size of government in the economy rises faster than the private and productive sectors. The size of the government increases during recessions by increasing expenditure to combat them, and it also increases during economic downturns by hiking taxes and creating inflation, which is a hidden tax.

What we are witnessing is a slow nationalization of the economy. Small businesses and families are suffering from higher rates because the government has created inflation and driven deficits to unsustainable levels, and the government demands more tax revenues.

The trick, as always, will be to deceive us by claiming that taxes will only be imposed on the wealthy. An unfair taxation system is no less unfair if it affects only a small proportion of citizens. However, it does not even matter. There is no way in which the government can boost revenues without passing a massive burden to the middle class via inflation, a hidden tax, and higher direct and indirect taxes.

According to Yellen, the government will not compromise on spending, and you will pay with inflation and higher taxes. This is the danger of letting Keynesianism reign. They start by

presenting the government as the solution, and they always impoverish the middle class.

There is no way in which the administration can fill a structural annual \$700 billion budget hole with “taxes on the rich.” Therefore, when they talk of compromise, what they mean is that the middle class and small businesses will continue to suffer.

Government spending has already reached \$3.82 trillion from January to May, a 6% increase over the same period in 2023, according to the Treasury’s Fiscal Data website. Only if we consider the year-on-year increase so far, \$208 billion, there is no revenue measure that would have collected that amount from the rich, from corporations, or from anyone, for that matter.

Considering that Yellen and the Biden administration are unwilling to even moderate the insane government spending trend, the Federal Reserve finds itself in the position of trying to curb the cost of debt by slowing the path of balance sheet normalization. This means that the Fed abandons its fight against inflation because fiscal policy fails to reduce inflationary pressures. In doing so, the Fed is passing the entire burden of policy normalization and higher rates to the productive sector, while the Treasury looks at the enormous deficit and thinks, “Well, we must collect more revenues.” You pay.

There is only one way to save the US dollar from losing more purchasing power and the US from becoming a stagnant and

unproductive economy: reduce the size of government. If you believe the government is too small, be prepared to be poorer by losing your real wage and ability to make ends meet. If you want more government, you will have it. And you will overpay for it. Inflation, higher taxes, and lower wages are the price of more state control. Always.⁵

Footnotes And Sources

1. The Wall Street Journal, June 7, 2024
2. CNBC.com, June 6, 2024
3. The Wall Street Journal, June 7, 2024
4. The Wall Street Journal, June 7, 2024
5. mises.org/mises-wire/yellen-wants-price-inflation-rise-so-feds-can-keep-spending

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