



## **WEEKLY ECONOMIC UPDATE MAY 20, 2024**

Stocks notched a solid gain last week in a mega-cap, tech-led rally bolstered by positive inflation news.

### **Dow 40,000**

The week began quietly as market averages traded in a tight range, awaiting fresh inflation news.

On Tuesday, markets rose steadily throughout the day after digesting a mixed wholesale inflation report.<sup>1</sup>

The next day, a cooler-than-expected Consumer Price Index (CPI) report sparked a broad-based rally as the upbeat news raised investors' hopes for a rate cut. The Nasdaq Composite and Standard & Poor's 500 (which ended above 5300 for the first time) closed the day up 1.4 percent and 1.2 percent, respectively. Meanwhile, the bellwether 10-year Treasury yield fell to 4.35 percent.<sup>2,3</sup>

Investors took a break as the week ended, mostly yawning at mixed economic data. Notably, the Dow closed just above 40,000 on Friday.

# MARKET INSIGHTS



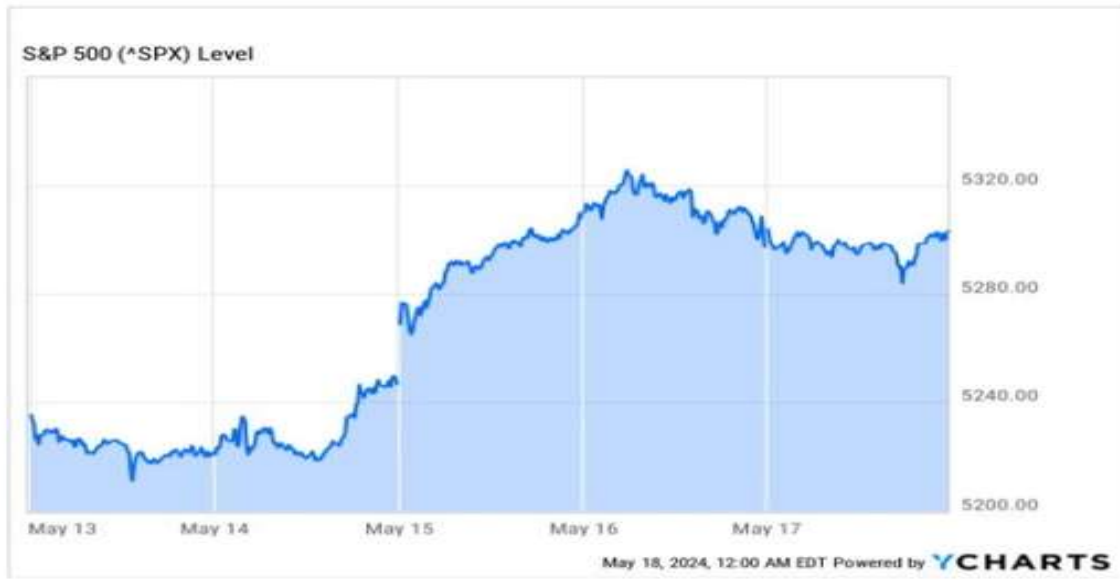
**YCHARTS**

## Weekly Market Insights (WMI)

### Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
<b>Dow Jones Industrial Average</b>	5.67%	6.55%	23.41%	71.38%
<b>MSCI EAFE</b>	6.99%	8.38%	15.63%	48.48%
<b>Nasdaq Composite</b>	5.33%	11.55%	36.38%	120.4%
<b>S&amp;P 500</b>	5.00%	11.66%	30.92%	100.1%

### S&P 500 Daily Close



### 10-Year Note Review

Indicator Name	Latest Value	1M Ago	1M Change
Date		3M Ago	3M Change
		1Y Ago	1Y Change
<b>10 Year Treasury Rate</b>	<b>4.42%</b>	4.59%	-3.70% ▼
05/17/24		4.30%	2.79% ▲
		3.57%	23.81% ▲

## **Inflated Expectations**

With the two critical inflation updates last week, attention shifted to the Federal Reserve's next steps with interest rates.

The top-level CPI numbers (known as headline inflation) tend to be less important than what's underneath: core inflation (CPI minus volatile food and energy prices) in the Fed's eye. Core CPI came in at 0.29 percent for April, just below the 0.30 percent from Wall Street. It was the first time the core CPI was lower than forecasts in three months. The news revived speculation that the Fed might consider a rate adjustment as early as September.<sup>4,5</sup>

## **This Week: Key Economic Data**

**Monday:** Fed Officials Michael Barr, Raphael Bostic, Christopher Waller, and Philip Jefferson speak for the first time.

**Tuesday:** Fed Officials Michael Barr, Raphael Bostic, Christopher Waller, and Philip Jefferson speak again. John Williams speaks for the first time for the week.

**Wednesday:** Existing Home Sales. 20-Year Treasury Bond Auction. FOMC Meeting Minutes.

**Thursday:** Jobless Claims. New Home Sales. Fed Balance Sheet.

**Friday:** Durable Goods. Consumer Sentiment.

## Quote of the Week



*“The behavior of any bureaucratic organization can best be understood by assuming that it is controlled by a secret cabal of its enemies.”*

**– Robert Conquest**

## Of Note



At recent Congressional hearings on federal bank regulators’ newly proposed rules to force the largest banks in the U.S. to hold more capital against their riskiest trading positions (so that taxpayers aren’t on the hook for more bailouts), the banks and their sycophants holding Senate and House seats made it sound like it’s the American farmers who will be hurt because the derivatives they use to hedge against crop failures or price swings in their crops will become more expensive. We knew this was a completely bogus argument because the latest data from the U.S. Department of Agriculture indicates that “agriculture, food, and related industries contributed roughly \$1.264 trillion to U.S. gross domestic product (GDP) in 2021....”

In other words, U.S. farmers need to hedge less than \$2 trillion while just three mega banks on Wall Street were holding \$157.3 trillion in derivatives as of September 30 of this year – which is \$56.74 trillion more than the GDP of the entire world last year.

If the bulk of these derivatives aren't being used by farmers and business owners to hedge against losses, what are they being used for? According to the Office of the Comptroller of the Currency (OCC), the federal regulator of national banks, the trillions of dollars in derivatives at the mega banks on Wall Street are being used for trading – likely for the benefit of the banks themselves or their billionaire speculator clients, such as hedge funds and family offices.

According to the OCC, as of September 30, JPMorgan Chase (which lost \$6.2 billion from its federally insured bank in wild derivative trades in 2012) is still allowed to sit on \$54.4 trillion in derivatives. Citigroup's Citibank, which blew itself up in 2008 from derivatives and off-balance-sheet vehicles and received the largest bailout in global banking history, is sitting on more derivatives today than at the time of its crash in 2008. OCC data shows Citibank with \$35.6 trillion in derivatives on September 30, 2008, versus a staggering \$51.3 trillion as of September 30, 2023. Goldman Sachs, whose federally-insured bank has just \$538 billion in assets, has \$51.6 trillion in derivatives. (In what alternative universe would Goldman Sachs be allowed to own a federally-insured bank?)

Then there is the matter of concentrated risk. According to the FDIC, as of September 30, there were 4,614 federally-insured banks and savings associations in the U.S. – the vast majority of which found no need to involve the bank in derivatives at all. But, for some inexplicable reason, three banks with highly dubious histories have been allowed to establish insane levels of concentrated risk in derivatives. The \$157.3 trillion in derivatives held by JPMorgan Chase Bank, Citibank and Goldman Sachs Bank USA represent 77 percent of all derivatives held by all 4,614 federally-insured financial institutions in the U.S.

The repeal of the Glass-Steagall Act in 1999 removed the ban of casino trading houses on Wall Street merging with federally-insured banks. Today, every giant federally-insured bank on Wall Street owns a trading house. In 1996, prior to the repeal of Glass-Steagall, derivatives at U.S. banks represented just 63 percent of world GDP. At the end of last year, derivatives at U.S. banks represented 189.92 percent of world GDP.

To prevent a replay of the banks blowing themselves up as they did in 2008 while their federal regulators were napping, federal banking regulators in July proposed to impose higher capital rules on just 37 banks – those significantly engaged in derivatives and other high-risk trading strategies. The backlash has been fierce, with the mega banks even running television ads painting distorted picture of what the capital increases would do.

Another critical question is who is on the other side of these derivative trades with the mega banks and may blow up if they took the wrong side of the trade?

According to federal researchers, there are both mega bank counterparties as well as “non-bank financial counterparties” – which could be insurance companies, brokerage firms, asset managers or hedge funds. There are also “non-financial corporate counterparties” – which could be just about any domestic or foreign corporation. To put it another way, the American people have no idea if they own common stock in a publicly-traded company that could blow up any day from reckless dealings in derivatives with global banks.

This is not some far-fetched fantasy. Wall Street has a history of blowing up things with derivatives. Merrill Lynch blew up Orange County, California with derivatives. Some of the biggest trading houses on Wall Street blew up the giant insurer, AIG, with derivatives in 2008, forcing the U.S. government to take over AIG with a massive bailout. According to documents released by the Financial Crisis Inquiry Commission (FCIC), at the time of Lehman Brothers' bankruptcy on September 15, 2008, it had more than 900,000 derivative contracts outstanding and had used the largest banks on Wall Street as its counterparties to many of these trades. The FCIC data shows that Lehman had more than 53,000 derivative contracts with JPMorgan Chase; more than 40,000 with Morgan Stanley; over 24,000 with Citigroup's Citibank; over 23,000 with Bank of America; and almost 19,000 with Goldman Sachs.

According to the Financial Crisis Inquiry Commission (FCIC), derivatives played an outsized role in the spread of financial panic in 2008. The FCIC wrote in its final report: “The existence of millions of derivatives contracts of all types between systemically important financial institutions—unseen and unknown in this unregulated market—added to uncertainty and escalated panic....”<sup>6</sup>

## Footnotes And Sources

1. CNBC.com, May 14, 2024
2. The Wall Street Journal, May 15, 2024
3. CNBC.com, May 17, 2024
4. CNBC.com, May 14, 2024
5. The Wall Street Journal, May 15, 2024
6. [wallstreetonparade.com/2023/12/three-wall-street-mega-banks-hold-157-3-trillion-in-derivatives-thats-56-7-trillion-more-than-the-entire-worlds-gdp-last-year/](https://wallstreetonparade.com/2023/12/three-wall-street-mega-banks-hold-157-3-trillion-in-derivatives-thats-56-7-trillion-more-than-the-entire-worlds-gdp-last-year/)

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