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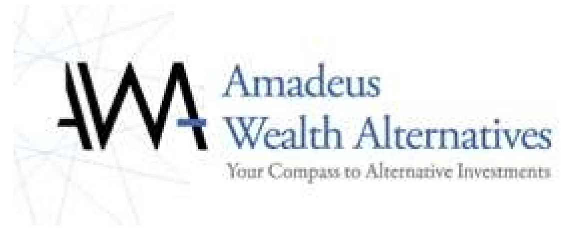

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In this week's recap: Stocks struggle to find their way amid several noteworthy earnings reports from corporations.

Weekly Economic Update

Presented by Ed Papier, May 3, 2021

THE WEEK ON WALL STREET

Stocks meandered around a flatline in a busy week of corporate earnings, ending the trading week slightly lower.

The Dow Jones Industrial Average slid 0.50%, while the Standard & Poor's 500 was flat (+0.02%). The Nasdaq Composite index surrendered 0.39%. The MSCI EAFE index, which tracks developed overseas stock markets, rose 0.18%. [1,2,3]

SEEKING DIRECTION

Though the S&P 500 and Nasdaq established new record highs at the start of the week, stocks struggled to find traction as the week wore on. [4]

Investor sentiment was dampened by rising COVID-19 infections in India and Japan, along with mounting inflation worries. Stocks finally caught some lift from strong quarterly reports issued by two big technology companies and an upbeat first-quarter Gross Domestic Product growth number, sending the S&P 500 to a fresh record high. [5]

Once again, though, stocks failed to follow through, as the market retreated in the final day of trading to close near where it began the week.

EARNINGS TOP EXPECTATIONS

Last week was the biggest week of the first quarter's earnings season with a third of S&P 500 companies reporting, including six of the largest companies. [6]

With expectations high, businesses generally topped Wall Street analysts' estimates; Big Tech companies posted especially noteworthy earnings. Coming into last Friday, with 40% of S&P 500 index companies reporting, earnings-per-share growth (EPS) is now estimated to be 29.3%, well ahead of the 12.2% EPS growth rate that analysts had expected at the start of the year. [7]

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Factory Orders.

Wednesday: ADP (Automated Data Processing) Employment Report. ISM (Institute for Supply Management) Services Index.

Thursday: Jobless Claims.

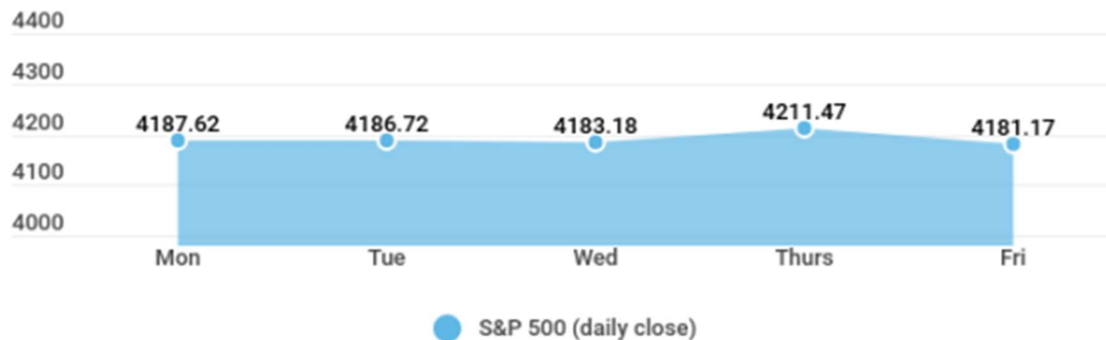
Friday: Employment Situation Report.

QUOTE OF THE WEEK

"Good constitutions are formed upon a comparison of the liberty of the individual with the strength of government: If the tone of either be too high, the other will be weakened too much."

ALEXANDER HAMILTON

Market Index	Close	Week	Y-T-D
DJIA	33,874.85	-0.50%	+10.68%
NASDAQ	13,962.68	-0.39%	+8.34%
MSCI-EAFE	2,291.95	+0.18%	+6.72%
S&P 500	4,181.17	+0.02%	+11.32%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.63%	+0.05%	+0.70%

Sources: The Wall Street Journal, April 30, 2021; Treasury.gov, April 30, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, April 23, to Friday, April 30, close. Weekly performance for the MSCI-EAFE is measured from Friday, April 23, open to Thursday, April 29, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE :

Fiscal stimulus, including the latest $1.9 trillion American Rescue Plan Act is a massive deficit, piled upon a mammoth debt, made possible by dollar debasement.

Extreme credit market intervention by the Federal Reserve is a prerequisite. So, too, is the utter denial of price inflation by the Bureau of Labor Statistics. Recent consumer price index (CPI) data reported the all items index increased 0.4% in February and 1.7% over the last 12 months. The combination of extreme credit market intervention and suspect inflation reporting is making a mockery of credit markets. Where to begin?

When you purchase a Treasury note you are lending money to the government for a specified period of time (i.e. 30 days to 30 years) at a fixed rate of interest or yield. The risk of default on Treasuries has

generally been considered nonexistent. The federal government, with assistance from the Federal Reserve, can always print money to pay its debts. But this behavior isn't without risks. Because printing dollars to pay debts devalues the existing stock of dollar. So, while the nominal return is preserved, the inflation adjusted return goes negative. In short, inflation destroys Treasury values for investors. To account for expectations of rising inflation, yields rise. But this presents another problem for long term Treasury investors.

When Treasury yields go up, Treasury prices go down. Over the last eight months, the yield on the 10-Year Treasury note has increased from 0.5% to over 1.54% – or 104 basis points. Treasury investors stand to face major losses. Moreover, as interest rates rise, and borrowing costs become more expensive, several other things happen. High priced stocks become less attractive. In addition, higher borrowing costs make it harder for over leveraged zombie corporations, state governments, municipalities and Washington to roll over their debts.

When interest rates rise, explosive things happen. There are financial blow ups. Long Term Capital Management, for example, in 1998. Or Lehman Brothers in 2008. Sometimes the stock market crashes like the Black Monday crash of 1987. There are many well-known examples.

At the moment, Fed Chairman Jay Powell says he wants inflation to run hot. That the Fed will hold the federal funds rate near zero until at least 2023. But what if the credit market has other thoughts? The yield on the 10-Year Treasury note has increased 104 basis points over the last 8 months.

However, the great monetary inflation has already happened. The great price inflation is picking up, regardless of what the Bureau of Labor Statics' unreliable CPI report says. Thus, it is certainly possible the yield on the 10-Year Treasury note could increase another 50-basis points come summer.

And by some analyst's estimation, we're about 50-basis points away from disaster. The financial system, lured by a seemingly endless supply of cheap credit from the Fed is levered up to its eyeballs. When the yield on the 10-Year Treasury note eclipses 2.10%, something may blow. There could be corporate debt, hedge fund, and pension fund financial blow-ups galore. But these results are exactly what the Fed is trying to avoid. The Fed wants inflation without higher interest rates.

So the Fed must expand its balance sheet – whatever it takes – and buy bonds with printing press money to keep interest rates from rising. In fact, the Fed is already pumping $80 billion per month into Treasuries and $40 billion per month into mortgage backed securities to suppress interest rates. Yet these Fed asset purchases will likely balloon to keep interest rates in check. Consequently, in addition to a debt crisis, the Fed is propagating a dollar crisis.

In Orange County CA's 1994 bankruptcy experience, the grand jury investigation found the investment manager relied upon a mail-order astrologer and psychic for interest rate predictions . Nowadays, we have the Fed's dots. And like astrology or psychic predictions, dot plots have nothing to do with the realities of inflation or a free functioning credit market. The Fed can resist our "50 points to disaster"

situation with ever greater amounts of printing press money and they certainly will. It's the only way for the government to stay in business. But it doesn't take much imagination to see where the Fed's behavior leads. [8]

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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.
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CITATIONS:

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