WEEKY ECONOMIC UPDATE MAY 6, 2024

Stocks notched a solid gain last week, rallying behind upbeat earnings, a dovish Fed, and mixed economic data.

Stocks Pop, Drop, Then Rally

Markets began the week with an upward bump as positive news from some mega-cap tech companies outweighed disappointing updates from other tech names.
The tone quickly changed on Tuesday as higher-than-expected Q1 wage growth triggered inflation and interest-rate anxiety—just as the Federal Open Market Committee kicked off its third meeting of the year. Each of the three major averages dropped more than 1.5 percent on the last trading day of April.[1]

When the Fed announced it was holding rates steady on Wednesday, stocks initially rallied on the news, but sellers got the upper hand late in the trading session, and prices ended the day slightly down.[2]

On Thursday, stocks trended higher as more companies reported upbeat Q1 results. Then, on Friday, stocks pushed higher after the April jobs report indicated that unemployment ticked up and the economy slowed. The 175,000 jobs created in April represented slower growth than the over 300,000 added in March and less than the 240,000 economists expected. Some Fed watchers believe that the news bolstered chances that the Fed may adjust rates sooner rather than later.[3]

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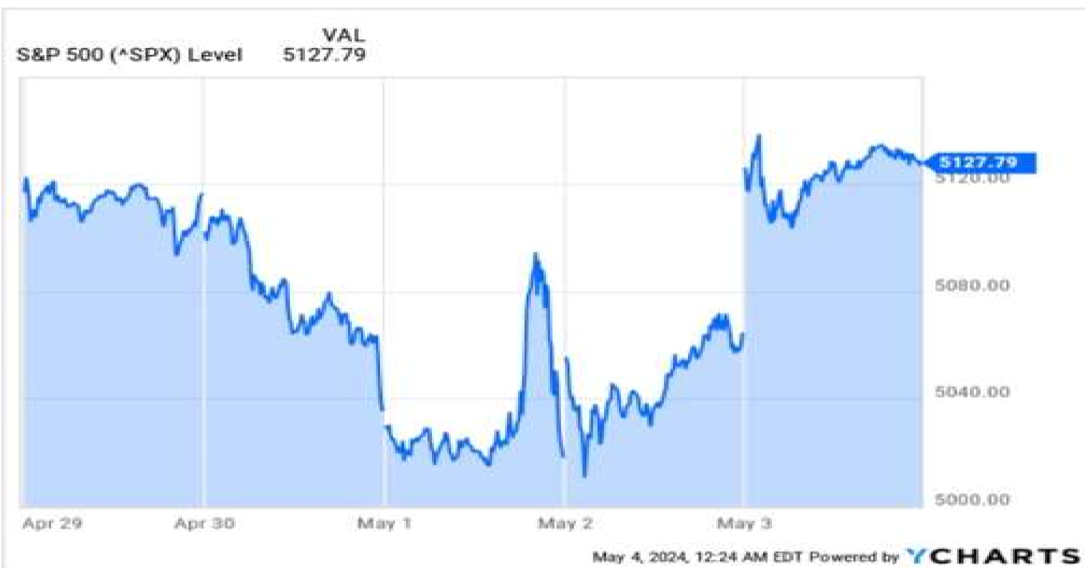
Weekly Market Insights (WMI)

Major Index Return Summary

Name	5D TR	1M TR	YTD TR	1Y TR
Dow Jones Industrial Average	0.37%	-2.32%	2.01%	15.89%
MSCI EAFE	0.78%	-1.14%	3.51%	11.08%
Nasdaq Composite	1.47%	-2.44%	5.75%	32.17%
S&P 500	0.31%	-2.64%	6.64%	24.85%

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 05/03/24	4.50%	4.36% 4.03% 3.38%	3.21% ▲ 11.66% ▲ 33.14% ▲

Uncertain Hurtin'

Markets hate uncertainty, so Fed Chair Jerome Powell attempted to clarify the Fed's stance on the outlook for interest rates at the close of its two-day meeting. Determining what's next for interest rates in the context of stubborn inflation is no simple task. But Powell was as straightforward as possible at the press conference. "I think it's unlikely that the next policy rate move will be a hike," he said. "I'd say it's unlikely."[4,5]

This Week: Key Economic Data

Wednesday: EIA Petroleum Report.

Thursday: Jobless Claims. EIA Natural Gas Report. Fed Balance Sheet.

Friday: Consumer Sentiment. Treasury Statement.

"To my friends, everything; to my enemies, the law"

– Oscar Benevides, President of Peru 1933-39

Of Note

Money supply growth fell again in January, remaining deep in negative territory after turning negative in November 2022 for the first time in twenty-eight years. January's drop continues a steep downward trend from the unprecedented highs experienced during much of the past three years.

Since April 2021, money supply growth has slowed quickly, and since late 2022, we've been seeing the money supply repeatedly contract, year over year. The last time the year-over-year (YOY) change in the money supply slipped into negative territory was in November 1994. At that time, negative growth continued for fifteen months, finally turning positive again in January 1996.

Money-supply growth has now been negative for fifteen months in a row. During January 2024, the downturn continued as YOY growth in the money supply was at –6.13 percent. That's up slightly from December's rate of decline which was of –7.40 percent and was below January 2023's rate of –5.09 percent. With negative growth now lasting more than a year and coming in below negative five percent for the past thirteen months, money supply contraction is the largest we've seen since the Great Depression. Prior to this year, at no other point for at least 60 years has the money supply fallen by more than 6 percent (YoY) in any month.

The money supply metric used here— the “true”, or Rothbard-Salerno, money supply measure (TMS)—is the metric developed by Murray Rothbard and Joseph Salerno, and is designed to provide a better measure of money supply fluctuations than M2.

In recent months, M2 growth rates have followed a similar course to TMS growth rates, although TMS has fallen faster than M2. In January 2024, the M2 growth rate was –1.94 percent. That's down from December's growth rate of –2.47 percent. January 2024's growth rate was also down from January 2023's rate of –1.61 percent.

Money supply growth can often be a helpful measure of economic activity and an indicator of coming recessions. During periods of economic boom, money supply tends to grow quickly as commercial banks make more loans. Recessions, on the other hand, tend to be preceded by slowing rates of money supply growth.

It should be noted that the money supply does not need to actually contract to signal a recession. As shown by Ludwig von Mises, recessions are often preceded by a mere slowing in money supply growth. But the drop into negative territory we've seen in recent months does help illustrate just how far and how rapidly money supply growth has fallen. That is generally a red flag for economic growth and employment. The fact that the money supply is shrinking at all is remarkable because the money supply in modern times almost never gets smaller. The money supply has now fallen by approximately $2.8 trillion (or 13.00 percent) since the peak in April 2022. Proportionally, the drop in money supply since 2022 is the largest fall we've seen since the Depression. (Rothbard estimates that in the lead-up to the Great Depression, the money supply fell by 12 percent from its peak of $73 billion in mid-1929 to $64 billion at the end of 1932.)

In spite of this recent drop in total money supply, the trend in money-supply remains well above what existed during the twenty-year period from 1989 to 2009. To return to this trend, the money supply would have to drop another $3 trillion or so—or 15 percent—down to a total below $15 trillion. Moreover, as of January, total money supply was still up 32.9 percent (or $4.6 trillion) since January 2020.

Since 2009, the TMS money supply is now up by more than 180 percent (M2 has grown by 145 percent in that period). Out of the current money supply of $18.9 trillion, $4.6 trillion—or 24 percent—of that has been created since January 2020. Since 2009, $12.1 trillion of the current money supply has been created. In other words, nearly two-thirds of the total existing money supply have been created just in the past thirteen years.

With these kinds of totals, a ten-percent drop only puts a small dent in the huge edifice of newly created money. The US economy still faces a very large monetary overhang from the past several years, and this is partly why after eighteen months of slowing money-supply growth, we are only now starting to see a sizable slowdown in the labor market. (For example, as of February, total employment has fallen for three months in a row, and full-time employment has fallen by 1.8 million jobs over that period).

Moreover, even though year-over-year comparisons remain starkly negative, the total money supply has been largely unchanged on a month-to-month basis over the past seven months. Specifically, the total TMS money supply rose slightly to $19 trillion in July 2023, and since then has only fallen by 64 billion (or 0.34 percent), hovering around $18.9 trillion. From December 2023 to January 2024, the TMS measure fell only 0.18 percent.

These aggregate numbers obscure many important details of where liquidity is falling, and where it is rising. For example Daniel Lacalle has shown some parts of the economy are entering a bust period while other parts see a continued boom. Put another way, the drop in the money supply over the past year has affected different parts of the economy differently. Lacalle describes the current situation as one of a "private sector recession" or a recession in the productive economy. This is to be contrasted with the continuing boom in government spending and government contractors. The sizable increases in GDP we've seen in recent quarters have been driven largely by government spending and growth in government jobs. When it comes to the government sector, and those industries that benefit directly from government spending, liquidity has not reflected the overall declines we've seen in the money supply. Sizable drops in the money supply have nonetheless been repeatedly mitigated by behind-the-scenes efforts at the Fed to make sure that liquidity continues to move into large banks. Even as some sectors of the economy are facing a deflationary bust, the central bank is careful to make sure the politically-connected financial sector is still flush with cash. Nonetheless, the overall monetary slowdown has been sufficient to considerably weaken the economy by some measures. The Philadelphia Fed's manufacturing index is in recession territory. The Leading Indicators index keeps looking worse. The yield curve points to recession. Temporary Services are still down, year-over-year, which often indicates approaching recession. Bankruptcies surged 18 percent in 2023.

In spite of recent drops in the money supply, there has been no sign of any deflation in consumer prices or asset prices. CPI inflation continues to march upward, and there has been no reversal of the 20 percent surge in prices that consumers have endured since 2020.

Indeed, according to February’s CPI report, CPI inflation accelerated for the second month in a row. Given that the money supply has flattened out at a post-covid plateau, combined with continued growth in CPI inflation, it is clear, the so-called "quantitative tightening" that the central bank has allegedly embraced over the past year has been insufficient to truly rein in the money supply or CPI inflation. In spite of this, we continue to hear calls from Wall Street and Washington demanding more easy money policies from the Fed. The regime is so addicted to easy access to newly-created dollars that a 20-percent CPI surge and an extra three to six trillion dollars sloshing around the economy (over just the past four years) still isn't enough. That is, it's not enough to meet the needs of Washington spenders or to keep interest rates low enough for the zombie companies now dominating the economic landscape.

It didn't have to be this way, but ordinary people are now paying the price for a decade of easy money cheered by Wall Street and the profligates in Washington. The only way to put the economy on a more stable long-term path is for the Fed to stop intervening to keep pumping liquidity to the regime and its allies. That would mean a return to a falling money supply and popping of economic bubbles. But it also lays the groundwork for a real economy—i.e., an economy not built on endless bubbles—built by saving and investment rather than spending made possible by artificially low interest rates and easy money.[6]

Footnotes And Sources

1. The Wall Street Journal, May 3, 2024

2. CNBC.com, May 1, 2024

3. The Wall Street Journal, May 3, 2024

4. The Wall Street Journal, May 3, 2024

5. CNBC.com, May 1, 2024

6 mises.org/mises-wire/money-supply-fell-fifteenth-month-row-full-time-jobs-disappear

U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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Please consult your financial professional for additional information.