Amadeus
Wealth Alternatives
Your Compass to Alternative Investments

WEEKLY ECONOMIC UPDATE NOV. 4, 2024

Stocks slid last week as mixed economic data and strong-but-not-spectacular Q3 corporate reports failed to inspire investors.

The Standard & Poor's 500 Index fell 1.36 percent, while the Nasdaq Composite Index declined 1.50 percent. The Dow Jones Industrial Average edged down 0.15 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, slid 0.96 percent.[1,2]

Q3 Reports Uninspired

Stocks rallied early Wednesday after the gross domestic product report showed a strong economy that appeared on the path to a soft landing. However, stocks moved lower throughout the day as investors digested mixed Q3 reports from a few mega-cap tech names.[3,4]

Stocks were under more pressure Thursday as disappointing outlooks for some key tech companies pulled the market down. A softer-than-expected jobs report on Friday unsettled investors, but stocks picked up as the day progressed, and attention shifted to how the Fed may interpret the jobs data.[5]

By Friday, the Nasdaq's eight-week winning streak had ended, and the S&P fell for the second week.

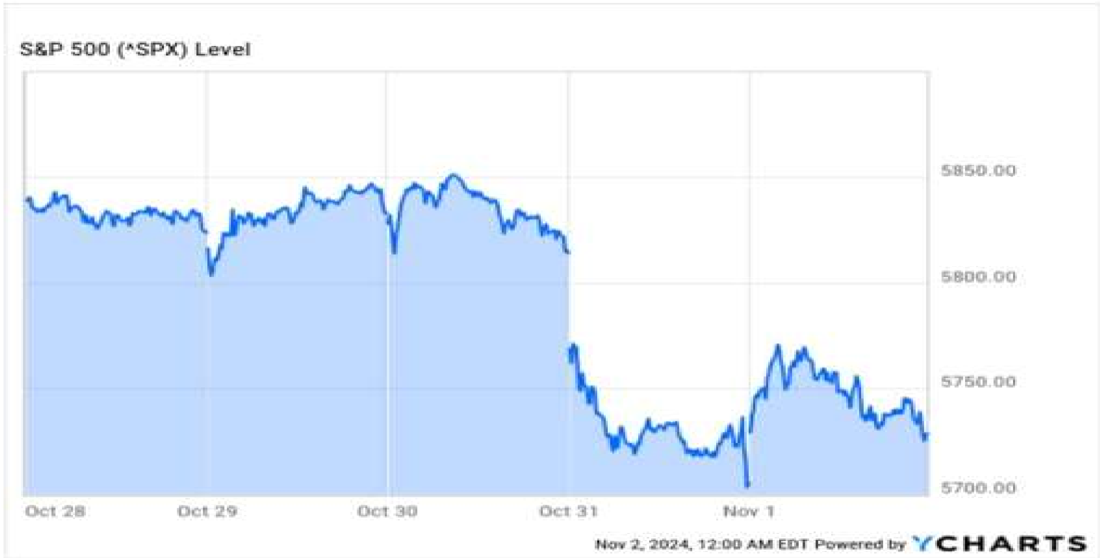
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	-1.26%	12.50%	28.85%	71.33%
MSCI EAFE	-5.42%	7.34%	23.58%	38.68%
Nasdaq Composite	-0.49%	21.24%	41.87%	127.1%
S&P 500	-0.91%	20.97%	38.02%	103.5%

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 11/01/24	4.37%	3.74% 3.99% 4.77%	16.84% ▲ 9.52% ▲ -8.39% ▼

Fed Back in Focus After Jobs Report

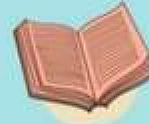
At its most recent meetings, the Fed has made it clear that it needed to balance the risks of both inflation and employment.

So Friday's jobs report that showed 12,000 jobs created in October caught some by surprise. Economists expected the Labor Department to report 100,000, down from September's 223,000 jobs.[6]

Investors parsed the data and determined the strike at a major aircraft manufacturer and two hurricanes caused the jobs report to fall short of estimates. Investors also appeared to believe the jobs report would prompt the Fed to move on rates at its two-day policy meeting, which ends on November 7.

This Week: Key Economic Data
Monday: Motor Vehicle Sales. Factory Orders.
Tuesday: Election Day.
Wednesday: FOMC Meeting – Day 1. EIA Petroleum Status Report.
Thursday: FOMC Meeting – Day 2. FOMC Announcement. Fed Chair Press Conference. Productivity and Costs.
Friday: Consumer Sentiment. Fed Official Michelle Bowman speaks.

Quote of the Week



“The remedy to be applied (to bad speech) is more speech, not enforced silence.”

– Louis Brandeis

Of Note

Many have questioned the accuracy of official inflation statistics, with dozens of academic papers written on the topic and doubts voiced by sources ranging from the New York Times to former President Donald Trump.

This matters not only because of the political salience of rising prices, but also because official inflation numbers are used to calculate real economic growth by adjusting nominal dollars to inflation-adjusted dollars.

The difficulty in measuring the size of a nation’s economy is two-fold. First, there is insufficient data to directly measure

the number and size of all transactions in an economy, or to monitor all economic activity. Second, the measuring tool used (in this case, the Federal Reserve note) changes value over time. Thus, fluctuations in the nominal value of economic activity can be due to real changes in economic activity, measurement error of economic activity, or changes in the value of a currency.

The government metrics for inflation suffer from various problems which tend to underestimate the rise in prices over time. These shortcomings have been more pronounced over the last four years during a relatively rapid depreciation of the currency. An alternative adjustment for converting nominal growth to real growth would accurately reflect changes in the cost of living over time.

One of the most cited inflation gauges is the consumer price index (CPI). It measures the change in price for a fixed basket of goods and services over time. While the index contains a proxy for the cost of homeownership, it does not actually account for this directly. Instead, the CPI imputes this value from rents, without observing home prices or interest rates. Called “owners’ equivalent rent of residences,” this category has a relative importance of over 26 percent, meaning it makes up more than a quarter of the CPI.

If the costs to rent and own change commensurately over time, then this methodology will be relatively accurate. Unfortunately, the cost of owning a home has risen much faster than rents over the last four years and the CPI has

grossly underestimated housing cost inflation. The cost of housing services in the National Economic Accounts published by the Bureau of Economic Analysis suffers from similar methodological problems.

There are also issues with quantifying the effects of certain government regulations, which can affect hedonic adjustments that typically adjust prices downwards when government statisticians believe a product has improved. The difficulty of estimating such improvements can result in artificial cost reductions due to perceived benefits to the consumer that do not actually exist. For example, if it is assumed that a regulation increases the quality of a product, then even a dramatic increase in price could register as no price change or even a price decline in the national accounting which is used to compute gross domestic product (GDP).

Further challenges exist to measuring inflation and price changes when consumers are not directly charged for services, like health insurance. Premiums are used both to pay for the actual cost of providing the service of insurance (risk mitigation) and for medical services and commodities. The CPI neglects both, and instead imputes the cost of health insurance from the profits of health insurers.

If those profits decline because of increased costs of doing business for insurers, then this will register as a reduction in health insurance costs to consumers, even if premiums and coverage remain precisely the same. This is problematic not

only because it distorts the true level of inflation but also because it affects estimates for consumer spending, artificially reducing a price index and increasing the estimate for real consumer spending and therefore overall economic activity.

The phenomenon of undercounting inflation is particularly concerning today given how high the official inflation measurements have been for the last several years. Inflation itself has increased the nominal values of several key economic metrics without resulting in any real change. This is why there has been such a disparity between the rapid rise in nominal, pre-inflation GDP and the relatively slow increase in real, after-inflation GDP.

To produce an alternative inflation metric that more accurately reflects the rise in the cost of living, several alterations must be made to the typical price indices used in the national accounts. These changes can be broadly categorized into three groups: housing, regulatory burdens, and indirectly measured prices.

The housing component has had the largest impact in terms of adjusting for the true cost of living; in the second quarter of 2024, it increased the cumulative change in the GDP deflator by roughly 75 percent. This was due to the combination of not only higher home prices but also higher interest rates. That is, a mortgage payment is made of the amount borrowed and the interest rate, and if both house

prices and interest rates are rising then the cost of home ownership rises on both fronts.

Conversely, using this accurate method, the relatively low interest rates in 2019, 2020 and early 2021 actually had a negative impact on the GDP deflator. That is to say, the adjustment reduced inflation during those years. Likewise, Trump-era deregulation led to marginal decreases in the cost of living which were not captured by official inflation metrics in 2019 and 2020, a trend which had fully reversed by the fourth quarter of 2022 under the current administration.

Utilizing a modified GDP deflator that includes more accurate metrics for housing, regulatory costs, and indirect costs yields a more accurate inflation measurement and therefore a more accurate valuation of real GDP.

Even without considering population growth and per capita GDP, the adjusted real GDP values imply that the nation entered a recession in the first quarter of 2022 and remained in that contraction through the second quarter of 2024. In just three of those ten quarters did adjusted real GDP increase (with one being only a marginal increase) and none of the increases occurred in consecutive quarters.

According to these adjustments, cumulative inflation since 2019 has been understated by nearly half. This has resulted in cumulative growth being overstated by roughly 15%. This is a large amount for just 5 years – for perspective, peak-to-

trough drop in real GDP during the 2008 crisis was 4%. Moreover, these adjustments indicate that the American economy has actually been in a recession since 2022.

These conclusions are in stark contrast to the establishment narrative that the US economy is enjoying robust growth that for some reason the public is incapable of perceiving. Indeed, our results are consistent with the perceptions of the American public, of whom a majority believe we are in recession.[7]

Footnotes and Sources

1. The Wall Street Journal, November 1, 2024
2. Investing.com, November 1, 2024
3. CNBC.com, October 30, 2024
4. The Wall Street Journal, October 30, 2024
5. The Wall Street Journal, November 1, 2024
6. The Wall Street Journal, November 1, 2024
7. brownstone.org/articles/recession-since-2022-us-economic-income-and-output-have-fallen-overall-for-four-years/

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. Any 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. 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. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility. Please consult your financial professional for additional information. This content is developed from sources believed to provide accurate

information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

Copyright 2024 FMG Suite.