WEEKLY ECONOMIC UPDATE SEPT. 2, 2024

There were mixed results for stocks last week as upbeat economic data and a critical Q2 corporate report shaped the week.

The Dow Jones Industrial Average rose 0.94 percent, while the Standard & Poor's 500 Index increased 0.24 percent. The Nasdaq Composite lagged, falling 0.92 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, gained 0.35 percent.[1,2]

Key Economic Data

Markets began the week quiet as investors awaited Q2 earnings from Nvidia, the world's most influential name in artificial intelligence.

The chipmaker–the second largest stock in the S&P 500 by market capitalization–dipped on the news, putting pressure on the Nasdaq and S&P 500. (The Nasdaq and S&P 500 are market-weighted averages, so larger companies have an outsized impact.)[3]

Nvidia is mentioned to show its influence on the overall stock market. It should not be considered a solicitation for the purchase or sale of the company.

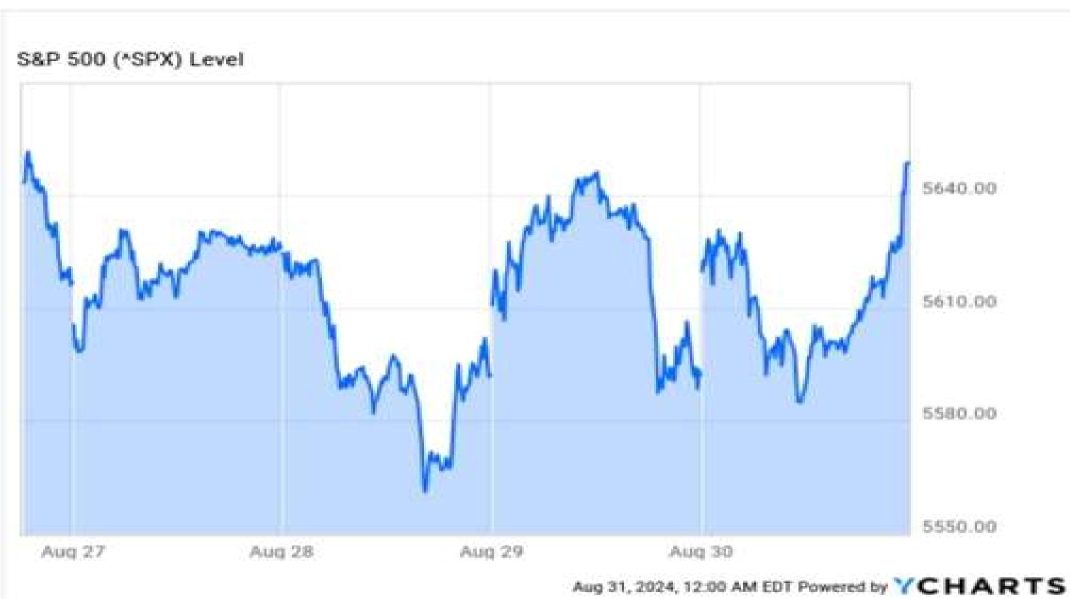
On Thursday, an upward revision in Gross Domestic Product (GDP) data boosted markets, although stocks fell later in the day. Friday's Personal Consumption and Expenditures (PCE) data seemed to confirm that inflation remained tame, welcome news for investors who are anticipating the Fed may adjust rates in September.[4]

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	2.17%	11.07%	21.02%	73.96%
MSCI EAFE	4.86%	12.16%	20.31%	55.45%
Nasdaq Composite	0.93%	17.24%	26.57%	128.7%
S&P 500	2.49%	18.32%	26.18%	107.3%

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 08/30/24	3.91%	4.15% 4.55% 4.12%	-5.78% -14.07% -5.10%

Softer Landing in Focus?

Several pieces of data helped build a narrative that the economy may be coming in for a soft landing. Second-quarter GDP growth was revised upward, from 2.8 percent to 3.0 percent. That's an improvement from Q1 GDP, which rose 1.4 percent. Some market watchers were concerned about the Q2 revision after pending home sales in July hit its lowest monthly level in 23 years.[5]

Meanwhile, the Federal Reserve's preferred measure of inflation, the PCE Index, came in 0.2 percent higher in July–in line with expectations. Core PCE inflation, which the Fed tracks closely, edged up 0.2 percent–also in line with forecasts.[6]

This Week: Key Economic Data
Tuesday: ISM Manufacturing Index. Construction Spending.
Wednesday: International Trade in Goods and Services. Motor Vehicle Sales. Factory Orders.
Thursday: Jobless Claims. ADP Employment Report.
Friday: Employment Situation. Fed Official John Williams speaks.

Quote of the Week

"What is on the tongue of drunk is on the mind of the sober."

– Old Russian Saying

Of Note

In 1818, the English writer Mary W. Shelly (1797-1851) published her gruesome novel *Frankenstein*: *The Modern Prometheus*, which became world famous. In the story, the scientist Dr. Victor Frankenstein pieces together a human-like creature from cadaver parts in his laboratory and succeeds in breathing life into its body. But Frankenstein would immediately like to eliminate the monster he has created. He sees it as a demon, calling it a "disgusting monster," a "cursed Satan." The monster immediately realized that it is excluded, outcast from human society. It becomes bitter and vengeful, bringing great misfortune, death, and destruction.

Shelly's *Frankenstein* has undergone many interpretations over the years. One is that the transgression of boundaries—such as Frankenstein's ungodly urge to want to create life like God—ends in disaster. Linked to this, the elevation of man above what is assigned to him, his arrogance, the uncontrollability of human creation contrary to nature, come to a bad end.

If you reflect a little longer and look at the recent past, Shelly's *Frankenstein* book somehow reminds us of the euro—the supranational single currency that was "released from the laboratory" on January 1, 1999.

The euro was created artificially by declaring the previously fixed exchange rates of the participating currencies irrevocable among themselves and against the ‘euro’ as an artificial unit and then merging them into it. The national currencies such as the Deutschmark, French franc, Austrian schilling, etc., were absorbed into the euro, and the euro was pieced together from them, so to speak.

The national currencies themselves were all fiat currencies. In other words, they represented state-monopolized money that was literally created out of nothing. All of them were therefore thoroughly and literally unnatural types of money—unnatural or contrary to nature, especially in the sense that they did not come into existence through voluntary cooperation. In fact, they were enforced top-down by the state’s monopoly. And the economic and ethical defects of the national fiat currencies are now inherent in the fiat euro, the conglomerate of the underlying national fiat currencies.

It is true that the creators of the euro made all kinds of promises and drew up rules and laws to make the public believe that their euro creature would be a reliable money. For example, the Maastricht Treaty stipulated that the European Central Bank (ECB), which was henceforth to monopolize the euro money supply, should be politically independent. Moreover, the ECB was said to ensure “price stability” (a euphemism for “low price inflation”), and that it should not finance the participating countries’ budget deficits with newly created euros.

Euro area member states were also to be placed in a “fiscal straitjacket”: they were not allowed, it was said in the run-up to the creation of the euro, to take on new debt by more than 3% of GDP per year and their debt burden was not allowed to exceed 60% of GDP. But all the “good things” that the creators of the euro promised the public have not materialized. On the contrary, their euro creature has been causing one problem after another, leading to wide-spread economic misery. For example, economic growth in the countries that adopted the euro from the outset was much lower on average than in the period before the euro.

Additionally, Euro area member states have not adhered to the debt rules. On the contrary, their debt levels have continued to trend upwards in the last 25 years. The net taxpayers in the countries that are still relatively better off have to pay for the mismanagement of the less economically successful countries. A de facto debt mutualization has been brought about. For example, the so-called European Stability Mechanism (ESM) was set up in 2013, and its purpose is to hold net taxpayers liable for dizzying amounts of money for bailing out financially irresponsible member states. The ECB is now gearing its interest rate policy to the needs of ailing state finances, that is, financing member states’ debt issuances with newly created euros—preferably through ever-new government bond purchase programs.

The euro currency union is now deeply divided, as the increased Target 2 balances show, documenting a breath-taking redistribution of wealth between the euro countries.

The Target 2 deficit countries are financed at the expense of the productive citizens of the Target 2 surplus countries. The inhibition to let the electronic printing press rotate has dwindled more and more. If necessary, the ECB provides de facto unlimited amounts of credit at favorable interest rates, especially to financially struggling states and commercial banks.

In the course of the politically dictated lockdown crises of 2020 to 2022, the ECB drastically expanded the money supply in the hands of the general public, causing very high price inflation that devalued people’s purchasing power and savings.

In sum, the euro, almost as soon as it was released from the laboratory, caused severe problems, even economic disaster. It has taken on an uncontrolled life of its own, just like Frankenstein’s monster. The euro single currency creates one crisis after another because—like Frankenstein’s monster—it is literally unnatural.

The euro is fiat money, and fiat money is known to have blatant economic and ethical defects. It is inflationary, socially unjust, causes financial and economic crises, drives national economies into over-indebtedness, and allows the state to grow unchecked at the expense of the freedoms of citizens and entrepreneurs. It can even be said that the fiat euro has greatly exacerbated the defects inherent in any national fiat currency.

Economic theory, had it been consulted, could have diagnosed this from the outset. No better, reliable and ethically sound money can be created from individual national fiat currency parts by merging them. On the contrary, merging them creates something even worse. And the attempt to preserve the euro creature at all costs only makes it even more evil. The damage it causes will foreseeably ruin the wider population in the eurozone in the truest sense of the word.

Dr. Victor Frankenstein's monster grew out of a fatal aberration, which Frankenstein immediately recognized shortly after his deed. However, he failed to undo his work. The creators of the euro—unlike Dr. Frankenstein—show no signs of regret. This is either because they do not recognize the euro for what it is—bad money that is gradually destroying the free economy and society (or what is left of it). Or because some of them are quite happy with the consequences of the euro, because they see it as having a planned effect, namely, it turns freedom into unfreedom, paving the way towards full-blown socialism. At the same time, many people do not see the euro as a monstrosity, do not recognize it as a disaster and do not hold it responsible for the damage it causes.

In the end, Mary Shelly has Frankenstein's monster die in the Antarctic and go up in flames. Frankenstein himself dies shortly afterwards, having passed on his story to posterity. The end of the euro creature cannot be deduced from this, but from an economic point of view it is clear that the euro will not have a happy ending either.

You may now say: the euro is not a human-like creature like Frankenstein's monster was, so we should not associate the euro with the story of Merry Shelly's sinister creature. In response to this objection, it can be said that the comparison is not flawed if one realizes that both cases are ultimately about human attitudes, about human ideas. They underlie the "unauthorized" deeds—such as the arrogance of wanting to create something unnatural, or perhaps bringing something disastrous into the world under the pretext of good.

Seen in this light, the root of evil is the bad idea, and the Frankenstein monster and the euro are only the respective symptoms that human action, instigated by bad ideas, produces. In order to put a stop to the euro creature, people need to change their way of thinking, to realize that a uniform, politicized, dictated, centralized fiat currency is not a good idea, but rather that the good idea is that people must have unrestricted freedom in their choice of money so that they can have good money. So it makes sense to link the Frankenstein monster and the euro creature, to think about them in the way that has been done in this little essay.[7]

Footnotes and Sources

1. The Wall Street Journal, August 30, 2024
2. Investing.com, August 30, 2024
3. CNBC.com, August 28, 2024
4. The Wall Street Journal, August 30, 2024
5. The Wall Street Journal, August 29, 2024
6. CNBC.com, August 30, 2024
7. mises.org/mises-wire/euro-frankenstein-currency