Zanetti Monday Missive 2022.05.09
Stock Carnage and Unemployment's Real Numbers

“Markets can remain irrational longer than you can remain solvent.”
~ John Maynard Keynes

“Know what you own, and know why you own it.”
~ Peter Lynch

You’ve got to love it when your stock market news feed grabs your attention with “Stock carnage”.

Then, “Dow drops 1,063 points, Nasdaq off 5%, S&P down 3.5%”.

Stock carnage: Dow drops 1,063

points, Nasdaq off 5%, S&P down 3.5%

FOXBusiness

Published on May 05, 2022

U.S. stocks tanked Thursday, posting the worst session since 2020 as the yield on the 10-Year Treasury rose to 3.066%.

Yep, Thursday was a doozie wasn't it? It was the worst single day drop since 2020. But back in 2020, the plunge was caused by a panicking globe that shut down in the face of a novel coronavirus that we now lovingly call Covid 19.

Thursday’s drop, though triggered by the Fed raising interest rates by 0.50% (half of a single percent), was really just about economics.

You see, money has been cheap for publicly traded companies. They could borrow at near zero rates. With that borrowing rate, no problem! They could borrow as much as they wanted to spur growth.

Now that the Fed is getting more “hawkish” (no, it’s not) about raising rates, the market is starting to realize the party may be over. No more cheap money for companies to borrow.

But the thing is, half a percent is NOTHING! Not when it comes to trying to fight inflation of 8.5% (but realistically more like 15-20%). So, the Fed is still being very “dovish” when it comes to playing hardball with inflation.

And here’s another interesting note – which shows how cheap money has been… the increase of half of one percentage point was the highest increase the Fed has done in over 20 years! 20 YEARS! That’s how long this ‘Cheap Money Party’ has been raging!

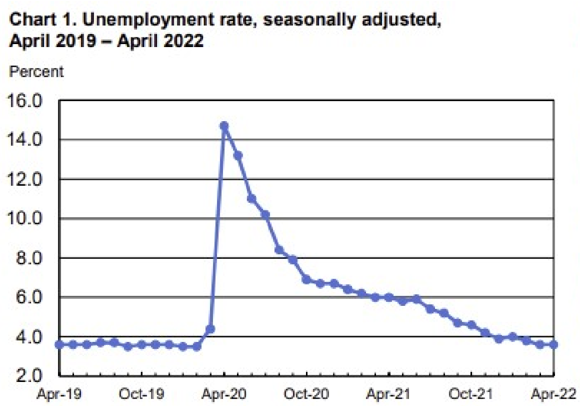
So, the air is beginning to be let out of the stock market bubble. And, it’s only the beginning considering the stock market was at 220% of the national GDP (it should be at 100%) at the end of last year – the highest levels ever seen.

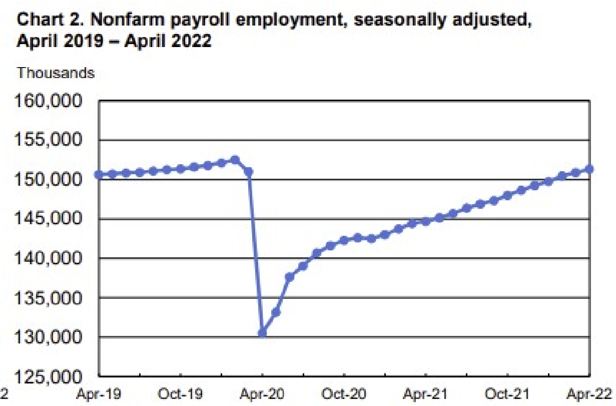
Let me take a detour now…

This weekend, Greg shared an article with me about some “good news” from the Bureau of Labor.

You noticed I put the “good news” in quotes, right?

Well, the Bureau reported nonfarm payroll employment increased by almost half a million in April and the unemployment rate remained unchanged at 3.6%.





You probably noticed what stood out to Greg and I, right? That employment increased while the unemployment ratio (3.6%) remained flat!

How does a ratio not change when you change the numerator? BY ALSO CHANGING THE DENOMINATOR! But the Bureau wasn’t as forthcoming with the denominator.

Just to review, the numerator in the unemployment ratio is people working. The denominator is people who are looking for work.

So when you read that the number of people working increased, the unemployment ratio should decrease.

The reason it didn’t is because nearly a million people left the labor force!

And then, after digging in a bit deeper, we see that the biggest drop in people looking for work were in the population with a Bachelor's Degree or higher. Those are typically seen in government reports as higher wage job seekers.

So, while the Bureau of Labor is trying to paint a rosy picture of increasing job numbers – the real measure to watch is the Unemployment Ratio. That's the measurement that determines long-term stability in government financing. After all, it's the labor force that pays for the government's debt.

That means our employment numbers need to increase substantially higher in order to have any meaningful impact on our unemployment rate.

This, along with the falling stock market, is pointing to a coming recession. All the while, we still have sky high inflation. The Fed has no choice but to raise rates. The longer and slower they do so, the worse this will be for our economy.

We'll see where they go with rates at the next meeting. Stay tuned!

Your Cheers-To-All-The-Moms-Out-There-As-I-Wouldn't-Be-Here-Without -Mine Financial Advisor,

Walt

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Our mailing address is:

5120 San Francisco Rd NE
Suite A

Albuquerque, NM 87109

505-858-3303