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Zanetti Monday Missive 2023.02.06
Surprising Jobs Report

"Inflation is like toothpaste. Once it's out, you can hardly get it back in."
~ Karl Otto Pohl

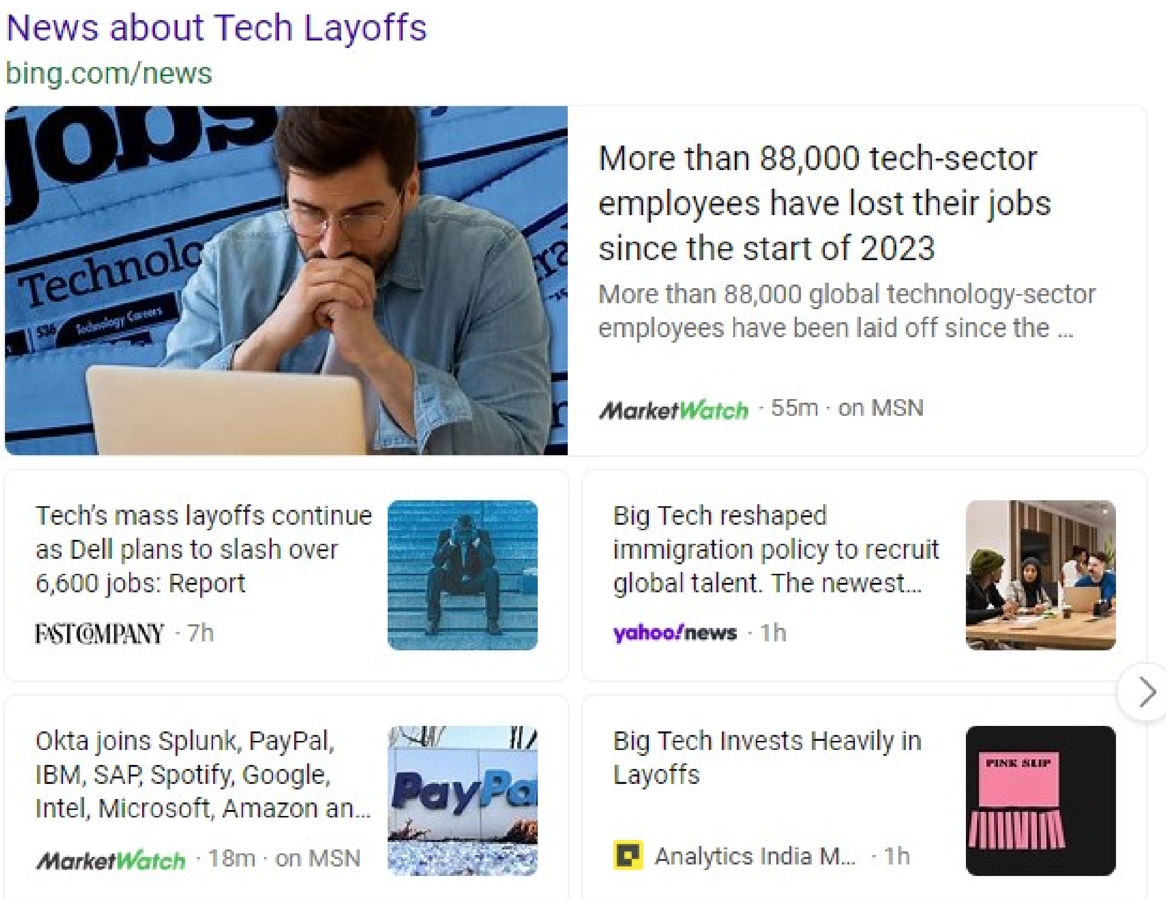
"There are three kinds of lies: lies, damned lies, and statistics."
~ Mark Twain

Happy Monday Everyone!

Well, I must admit last week’s jobs report surprised me.

And it looks like I wasn’t the only one. I think Fed Chairman, Jerome Powell, was caught a bit off guard as well.

With all of the announcements over the past few weeks of the 10's of Thousands of layoffs being made at big tech employers like Facebook, Amazon, Microsoft, etc. The last thing I expected to hear was that unemployment was at historic lows.



Moreover, the news of the massive layoffs coincided with falling inflation rates – still higher than is healthy, but lower than the roughly 9% earlier last year.

Inflation was falling because company sales were falling.

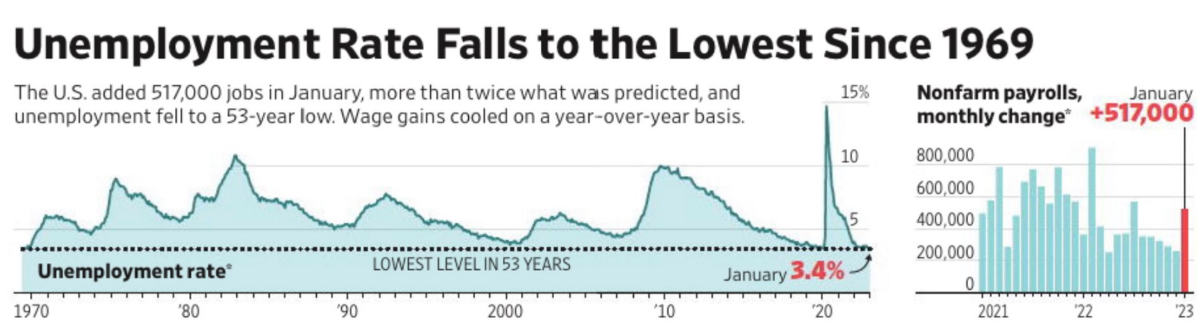
That's exactly what the Federal Reserve was wanting to happen. That's why they've been raising rates.

In order to reduce inflation, the Fed has been raising rates.

Raising rates make it harder for individuals to borrow money to buy homes and cars. It also makes it harder for companies to borrow money to reinvest in their companies. The velocity of money slows down.

The goal was to slow down spending, and to increase the U.S. unemployment rate (which also slows down spending) – the goal being to decrease spending to a rate that prices come down and the inflationary cycle reverses.

But, if you heard the news on Friday or read the papers over the weekend, the unemployment numbers came in shockingly low. Low enough for President Biden to certainly take a victory lap. And, while I'm always a little skeptical when government statistics are published (we all know the government picks and chooses what date to present), these numbers definitely look impressive if your goal is to increase employment:



What did this news do to the stock market? It dropped! And so did gold (but for a different set of reasons).

Why did the stock market drop? Because for the past year, the raising rates of the fed has been scaring investors who were afraid the interest rates would hurt the stocks they were invested in.

Then, the last rate increase was only 0.25%, making people believe the Fed was starting to be satisfied with the slowdown of inflation – Wall Street was starting to think the Fed would pause interest rate hikes and even start to reverse them soon enough. So they were starting to drive up the stock market.

It looks like the Fed was also starting to believe this was to be the path moving forward. The Federal Reserve Board was starting to hint at slowing down their rate hikes.

Then Friday's numbers came in…

All of a sudden, folks are worried that the Fed hasn't done enough to bring inflation down and that these new numbers show that people will keep spending their wages and companies will keep hiring employees to keep up with the spending, sending inflation even higher. Which means, the Fed will have to keep raising rates.

And, boom, the big investment houses sold massive holdings in the stock market and the indexes fell.

And gold fell too. Why? Because if the Fed starts raising rates aggressively again, the US dollar will attract attention away from gold – because gold doesn't pay interest, while the US dollar does.

For a while.

But here's the thing, for the past year every time the Fed raised rates gold took a hit, then climbed again. Then took a hit. Then climbed again. Kind of like 2 steps upward, one step down.

Inversely, the stock market was taking two steps down, one step up after every rate hike.

And I think we are going to see more of this throughout 2023. It will be filled with lots of speed bumps. But over all the direction for precious metals and commodities will continue to climb (albeit with volatility) throughout 2023.

Now while I'm definitely happy for my fellow Americans who have gone back to work to find higher employment rates, I worry that this will continue to cause inflation to rise. Inflation is the bane of governments and their citizenry. It economically destroys those who don't own real assets.

Unless these numbers are a fluke and we get a new surprise around the corner, the Fed has no choice now but to stay on it's path of continued rate hikes.

Your-Maybe-They-Can-Just-Shoot-Down-The-Inflated-Economy-Like-They-Did-That-Big-Ol'-Balloon Financial Advisor,

Walt

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