




Debt Crisis Stalemate, Again - RIA


Do the headlines below sound familiar? They should because the same fears and political rhetoric as 2011 are surfacing as the nation faces yet another debt crisis stalemate. Congress has raised the debt cap 78 times since 1960, but many political and media pundits are concerned that this time is different.

- *US Malaise, Debt Stalemate Shake Allies Globally*
- *Obama tells nation debt stalemate requires compromise now*
- *U.S. debt stalemate sinks stocks*
- *How worried should we be if the debt ceiling isn't lifted?*
- *A Stock Market Plunge Will Resolve the Debt-Ceiling*

It's worth looking back at 2011 to assess how the major asset classes traded before, during, and after the debt crisis stalemate. The table below shows that stocks were the worst-performing asset class both leading up to the debt crisis stalemate and in the week following resolution. Ten-year U.S. Treasury yields fell before and after the crisis. Gold was also a big winner. Surprisingly, despite fiscal turmoil, the dollar also did well before and after raising the debt cap.

This time the reaction is quite different. The S&P 500 is up 2% over the last month, while ten-year yields have risen by about 0.25%, and gold is off by 1.50%. Like in 2011, the dollar is rising before the potential crisis. We caveat the data below as there are a lot of macroeconomic, monetary, and fiscal policy differences between 2011. Further, the political dissension in the country is worse, and the fiscal imbalances are much larger.

 Real Investment Advice				USD
Period	S&P 500 (% Chg.)	10yr UST Yield (Chg. Yield	Gold (%) Chg.)	Index (Chg. Index)
3 Mos Prior	-8.03%	-0.65%	6.01%	1.75
1 Week Prior	-6.25%	-0.42%	2.60%	0.90
1 Week After	-10.50%	-0.53%	8.09%	0.57
3 Months After	1.13%	-0.55%	6.32%	2.90
Total 6 Month period	-6.90%	-1.20%	12.33%	4.65

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What To Watch Today

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
TUESDAY, MAY 23						
12:55	USD Redbook Index (YoY)(May 19)	<div><div></div></div>	-	-	-	1.6%
13:00	USD Fed's Logan speech	<div><div></div></div>	SPEECH			
13:45	USD S&P Global Composite PMI(May) PREL	<div><div></div></div>	-	-	50	53.4
13:45	USD S&P Global Manufacturing PMI(May) PREL	<div><div></div></div>	-	-	50	50.2
13:45	USD S&P Global Services PMI(May) PREL	<div><div></div></div>	-	-	53.6	53.6
14:00	USD New Home Sales (MoM)(Apr)	<div><div></div></div>	-	-	0.663M	0.683M
14:00	USD New Home Sales Change (MoM)(Apr)	<div><div></div></div>	-	-	3.3%	9.6%
14:00	USD Richmond Fed Manufacturing Index(May)	<div><div></div></div>	-	-	-10	-10
17:00	USD 2-Year Note Auction	<div><div></div></div>	-	-	-	3.969%
20:30	USD API Weekly Crude Oil Stock(May 19)	<div><div></div></div>	-	-	-	3.69M
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Earnings

Company		Time	Estimate		<div><div></div></div> Growth <div>Show only confirmed?</div>	Surprise				
✓	LOW	Lowe's Companies, Inc.	6:00 AM ET	\$3.48	\$21.66 B	-8.4%	+	=	-	+
✓	INTU	Intuit Inc.	4:00 PM ET	\$8.48	\$6.10 B	8.3%	+	=	-	+
✓	BJ	BJ's Wholesale Club, ...	6:45 AM ET	\$0.84	\$4.81 B	7.0%	+	=	-	+
✓	VIPS	Vipshop Holdings Lim...	5:00 AM ET	\$0.37	\$3.77 B	-5.3%	+	=	-	+
✓	AZO	AutoZone, Inc.	6:55 AM ET	\$30.84	\$4.12 B	6.6%	+	=	-	+
✓	VFC	VF Corp.	4:05 PM ET	\$0.14	\$2.73 B	-3.4%	+	=	-	+
✓	DKS	DICK'S Sporting Goo...	7:30 AM ET	\$3.21	\$2.81 B	4.1%	+	=	-	+
✓	TOL	Toll Brothers, Inc.	4:30 PM ET	\$1.89	\$2.06 B	-9.6%	+	=	-	+
✓	WSM	Williams-Sonoma, Inc.	BMO	\$2.41	\$1.80 B	-4.8%	+	=	-	+
✓	A	Agilent Technologies, ...	4:05 PM ET	\$1.27	\$1.67 B	3.9%	+	=	-	+
✓	PANW	Palo Alto Networks, Inc.	4:05 PM ET	\$0.92	\$1.71 B	23.3%	+	=	-	+
✓	URBN	Urban Outfitters, Inc	4:05 PM ET	\$0.36	\$1.09 B	3.6%	+	=	-	+

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Has Tech Been The Debt Ceiling Debacle Hedge?

Over the last few weeks, the F.O.M.O. chase in Technology stocks has baffled the more bearish prognosticators. However, an overlooked reason for investors piling into Technology stocks may be **the ?debt ceiling? crisis**. Technology stocks, by their very nature, are long-duration assets. As such, a disinflationary environment, which will precede lower interest rates, benefits cyclical growth stocks. While technology stocks were performing well earlier in the year, it has been interesting to see the ramp in the big technology-driven stocks in the market as the debt-ceiling rhetoric of a ? *potential default?* heated up.

As the mainstream headlines noted, the risk of failing to raise the ?*debt ceiling?* would potentially be a technical default of interest payments. Such an event would theoretically be disinflationary, triggering an economic recession and leading to lower rates. Such would explain why the defensive and economically-sensitive stocks have been performing so poorly while only a handful of highly liquid stocks that would benefit from such an environment have risen.

While this is likely an oversimplified explanation if technology stocks have been a hedge against a debt-ceiling crisis, a resolution that leads to a debt-limit increase should lead to a reversal of that hedge. Such is because when the debt ceiling is lifted, the Treasury will need to issue a lot of debt to refund current borrowings, leading to a short-term spike in interest rates and setting the backdrop for a reversal from disinflationary to inflationary assets short-term.

It?s just a thought.



TradingView





Kashkari Warns that 6% Fed Funds May Be Needed

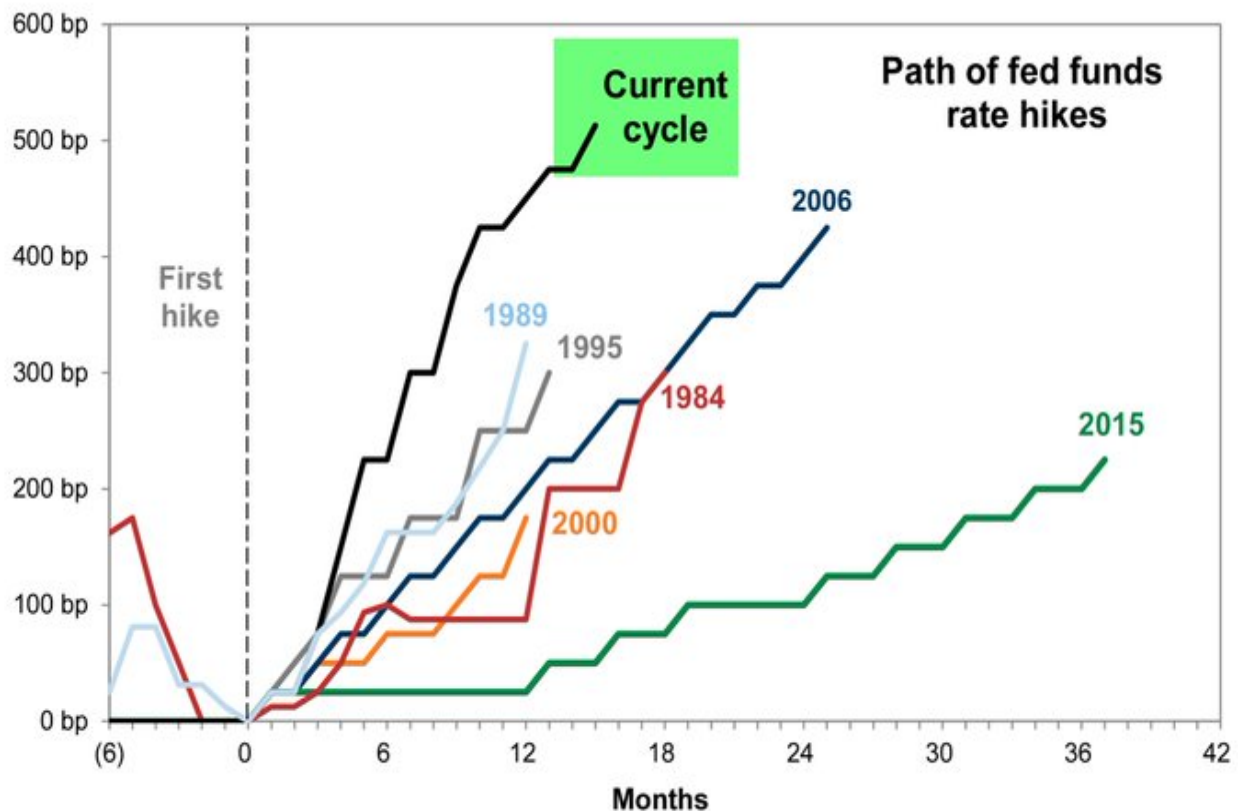
The following headline welcomed traders early Monday morning:

FED'S KASHKARI: IT MAY BE THAT WE HAVE TO GO NORTH OF 6%, BUT IT'S NOT CLEAR.

Might he be taking advice from our article, [Speak Loudly Because You Carry A Small Stick](#)? We summarize the article as follows:

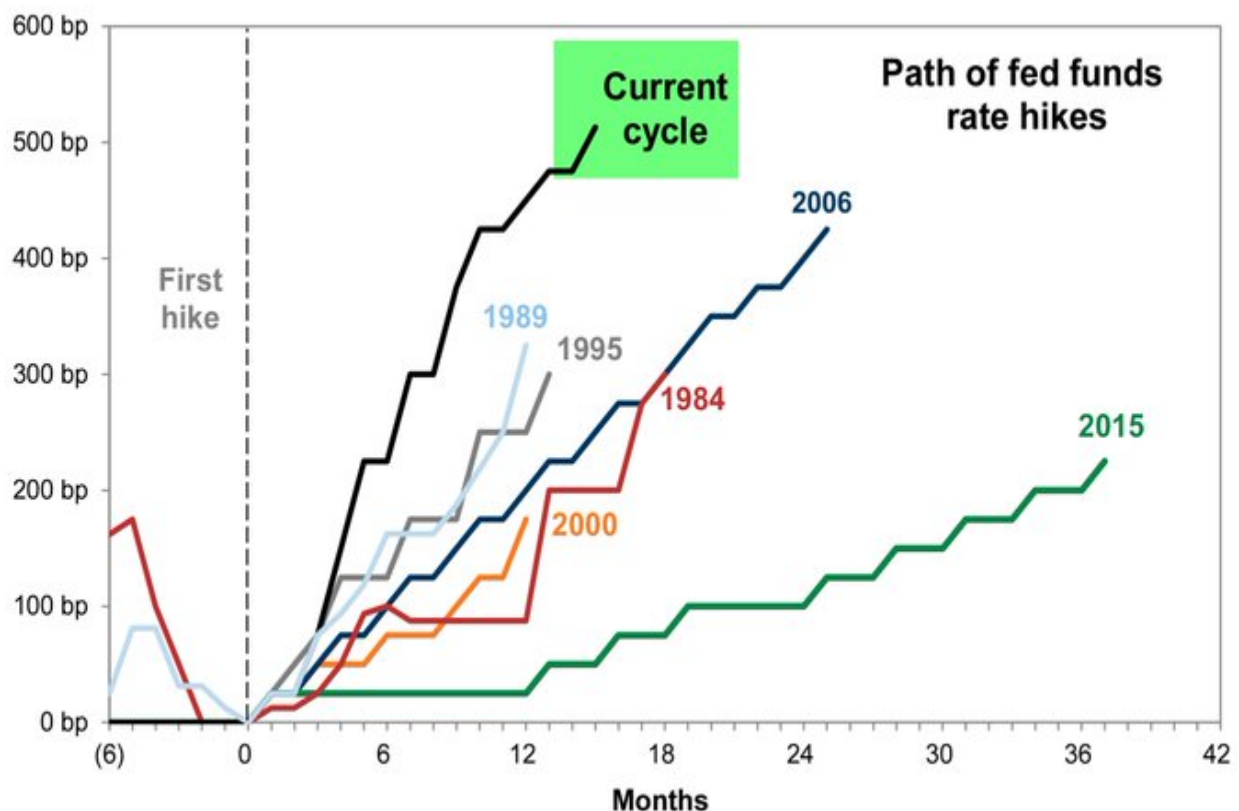
Given the lag effect of prior rate hikes and the massive leverage embedded in the economy, we advise Jerome Powell to speak very loudly but take limited further action regarding rate hikes.

Minneapolis Fed President Neel Kashkari is one of the more hawkish Fed members. The recent FOMO-like Nasdaq environment is likely pushing him to use rhetoric to scare markets. The Fed has long believed that the stock market plays an important role in consumer confidence, which drives consumption and economic activity. Given that the Fed is trying to slow the economy, Kashkari may be using fear and speaking loudly to help accomplish its task.



Source: FactSet, Goldman Sachs Global Investment Research. As of May 15, 2023.

Global Investment Research



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Global Investment Research

The Bull-Bear Market Tug of War

On Monday, we published [Monetary Support Suggests Bear Market is Possibly Over](#). The article starts by highlighting the growing debt-to-GDP ratio and the recent sharp increase in interest rates.

It then helps answer the following quote from [@MichaelAArouet](#) :

?What are the odds that the fastest tightening cycle combined with highest debt/GDP level will end up in a soft landing??

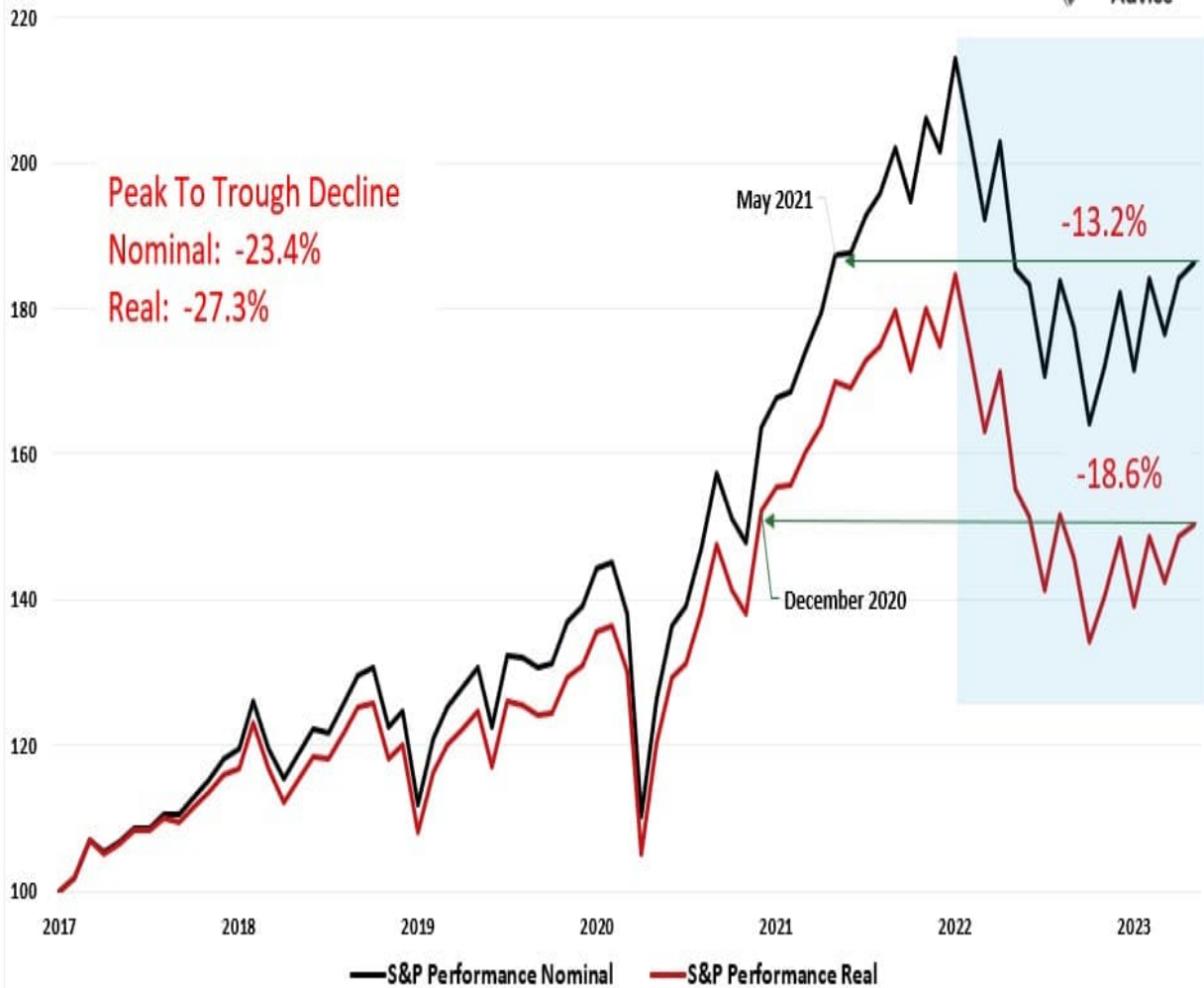
Yes, concerns for a recession are high, especially given the sharp increase in interest rates and the debt imbalance. But, as the article notes, *?Federal spending ramps up?* and *?Monetary support is still high.?* Might the decline in 2022 have already priced in weaker economic growth, and *?it is possible the recent rally in stocks, a leading indicator, combined with the ongoing monetary supports, suggests we may start to see some improvement in the economic data.?*

The article ends as follows:

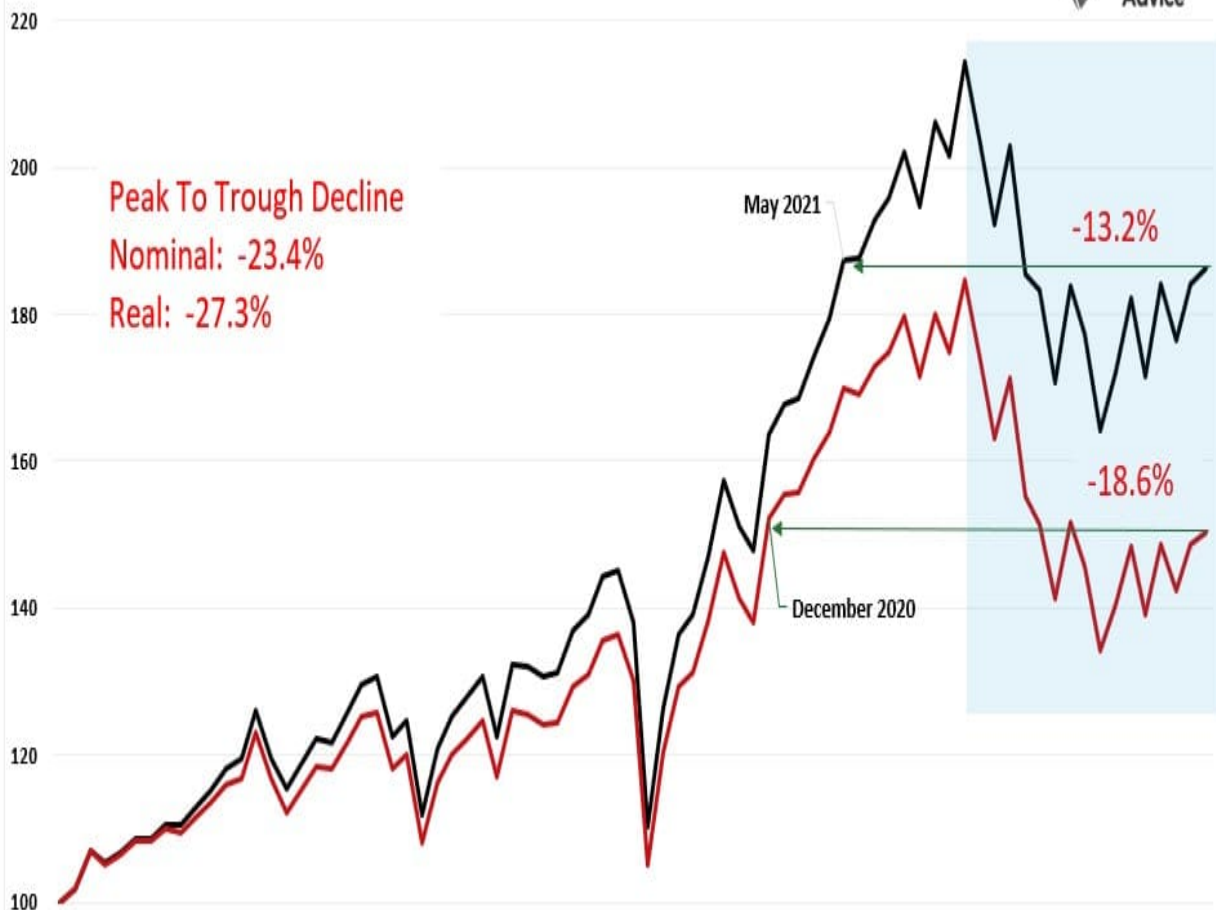
I am not suggesting the markets, and the economy, won't potentially struggle in the months ahead. However, we could avoid a deep economic due to the still massive amounts of monetary support in the system.

These competing forces will make investing more difficult until those monetary excesses reverse.

S&P 500 Performance Of \$100 Investment (Nominal vs Real)



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Don't Wait on NBER to Call a Recession

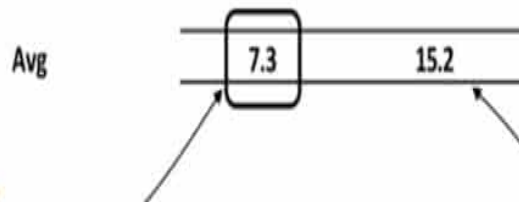
The NBER is the official arbiter of recessions. The problem, as the Piper Sandler table below shows, is that they are, on average, about seven months too late in determining when a recession starts and over a year late in determining when a recession ends. While it can be problematic for investors relying on the NBER, they should be aware the NBER waits for revised economic data. Further, they heavily rely on a higher unemployment rate as a key recession determinant. The labor markets tend to be lagging economic indicators as layoffs do not typically occur until a recession is underway.

By The Time The NBER Calls A Recession ... It's Almost Over!

NBER Recession Dates

Peak	Trough	Date Peak Called By	Date Trough Called By	Lag In Calling A Peak (# Months)	Lag In Calling A Peak (# Months)
		NBER	NBER		
1/1/1980	7/1/1980	6/3/1980	7/8/1981	5	12
7/1/1981	11/1/1982	1/6/1982	7/8/1983	6	8
7/1/1990	3/1/1991	4/25/1991	12/22/1992	9	21
3/1/2001	11/1/2001	11/26/2001	7/17/2003	8	20
12/1/2007	6/1/2009	12/1/2008	9/20/2010	12	15
2/1/2020	4/1/2020	6/8/2020	7/19/2021	4	15

Source: Business Cycle Dating | NBER



On average it takes over 7 months for the NBER to call that a recession has started!

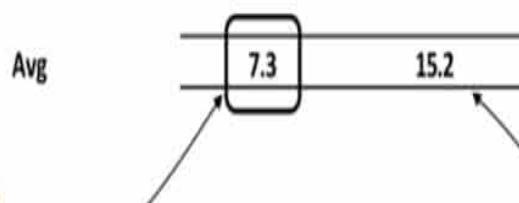
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Source: Business Cycle Dating | NBER



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Tweet of the Day



Wasteland Capital
@ecommerceshares

...

Over just two years, **\$NVDA** stock tripled, then lost -70%, and now almost tripled again.

During this time, the organisation itself has been stable & the product portfolio on plan. Yet we've seen massive narrative swings & financial forecast changes.

What are the lessons here?



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> **Talk with an Advisor & Planner today!**

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Michael Lebowitz, CFA is an Investment Analyst and Portfolio Manager for [RIA Advisors](#), specializing in macroeconomic research, valuations, asset allocation, and risk management. **RIA Contributing Editor and Research Director**. CFA is an Investment Analyst and Portfolio Manager; **Co-founder of 720 Global Research**;

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