Financial Markets This Week

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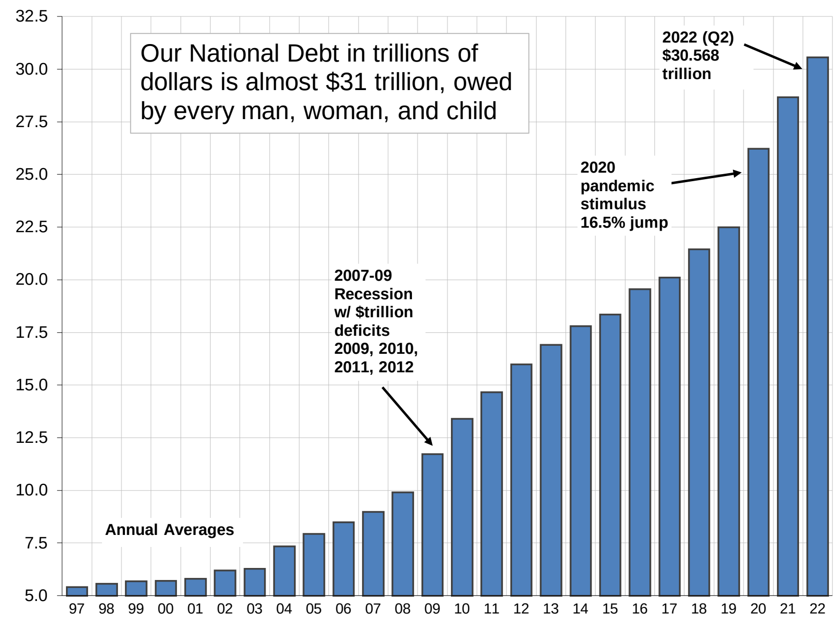
WILL YOU BE ABLE TO RETIRE WITH SOCIAL SECURITY



Both stocks and bond markets seemed to trade more on fiscal matters in the U.K. on Friday, but what about the Federal government's finances right here in the USA? Social security with September CPI inflation in hand on Thursday announced the Cost-of-Living Adjustment (COLA) for 2023 based on the increase in the CPI-W from Q3 2021 through Q3 2022. Last year's COLA was 5.9% and this year's will be 8.7%. 5.9 + 8.7 = 14.6% which should make a dent in the cost-of-living crisis as the IMF likes to call the inflation outbreak. Can we afford it, keeping in mind the adjustment keeps retirees benefits even with the inflated prices the last two years, so it isn't another government giveaway.

This year's annual report from the trustees of Social Security and Medicare said the Social Security Trust Fund will run out of money in 2034. The baby boom generation born from 1946 to 1964 are 58 to 76 years old in 2022 and will have used up all the money the government saved for them by the time they are 70 to 88 years old in 2034. Twelve years years from now. The nation will be bankrupt if we are not already with the national debt over $30 trillion.

Sounds bad. But we are happy to report it is not true. We are unsure of the 2034 date. It is our understanding there is no real money in the trust fund right now. Those reserves are nonmarketable debt. When social security needs to pay more to beneficiaries than it is collecting in taxes from workers, it gives the nonmarketable piece of paper to the U.S. Treasury who then gives them cash. Treasury doesn't have any cash so it sells bonds to the public and then gives the proceeds to social security. The trust fund runs out of money in 2034, but the reality is the payment of social security benefits to retirees "boosts" the Federal budget deficit right now.

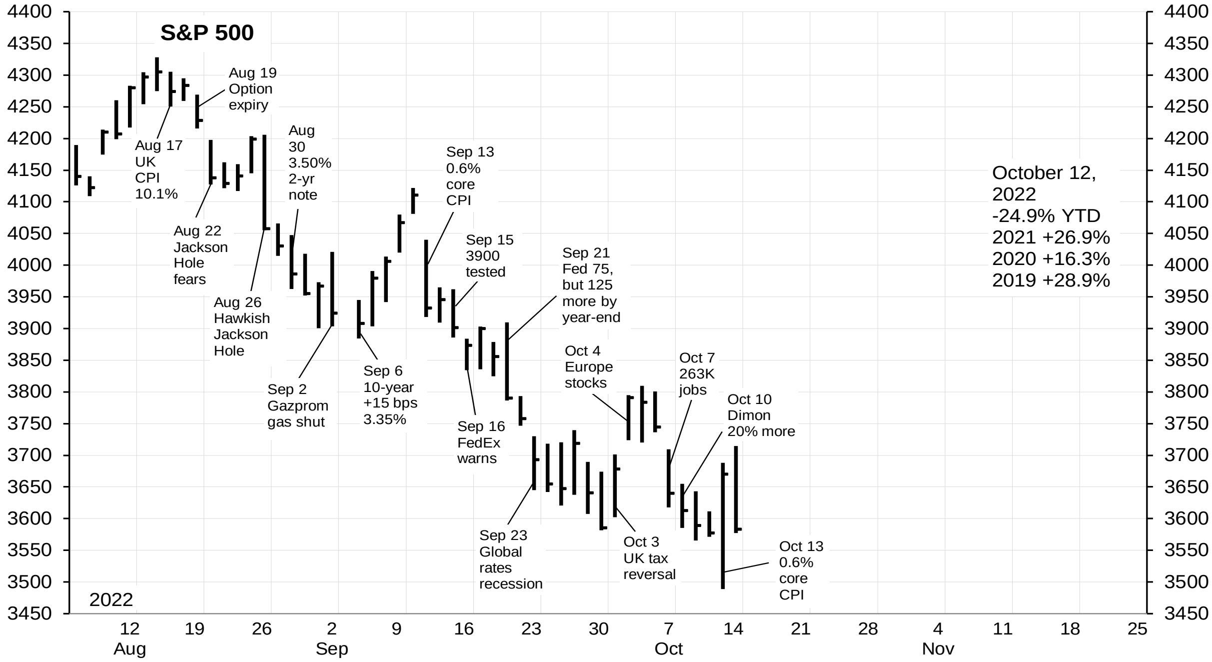
The table here shows the social security contributions over 45 years of a worker's lifetime. The government takes the money, says it is investing it for us for retirement, even if the tax collections are used to fund current outlays of the Federal government, spending on food stamps, Army tanks, fixing rotten bridges, homeland security. Every so often, a politician wants to allow some privatization of the social security system which would never work as the amounts are too large for everyone to find a place to invest their nest egg. But it is still intriguing to think about what if you had saved all the social security contributions you made for yourself over the years. Would you be better off today if you invested your retirement savings on your own?

Assuming you made the maximum social security earnings base level of income each year along the way, your first social security tax contribution of 4.33% on your earnings of $22,900 in 1978 was $992. Your last contribution 45 years later in 2023 is a 5.3% OASI tax on $160,200 of taxable earnings or $8,491 saved for your retirement. Add up all 45 years and you accumulated $195,067. Double that amount if you had convinced your employer to kick in 5.3% like the Federal government does for you under the current social security plan. You are really saving 10.6% of your income in 2022 up to a maximum of $160,200.

45 YEARS OF SOCIAL SECURITY CONTRIBUTIONS						
WHAT IF YOU INVESTED IT YOURSELF?						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Years On the Job	Year	SS Earnings Base $	OASI Tax Rate %	Max Contri-bution	Future Value at 5%	Future Value at 10%
1	1979	22,900	4.33	992	17819	144552
2	1980	25,900	4.52	1171	20035	155148
3	1981	29,700	4.7	1396	22752	168178
4	1982	32,400	4.575	1482	23010	162352
5	1983	35,700	4.775	1705	25202	169735
6	1984	37,800	5.2	1966	27676	177923
7	1985	39,600	5.2	2059	27613	169451
8	1986	42,000	5.2	2184	27892	163382
9	1987	43,800	5.2	2278	27702	154895
10	1988	45,000	5.53	2489	28826	153852
11	1989	48,000	5.53	2654	29283	149190
12	1990	51,300	5.6	2873	30184	146787
13	1991	53,400	5.6	2990	29923	138905
14	1992	55,500	5.6	3108	29619	131243
15	1993	57,600	5.6	3226	29276	123827
16	1994	60,600	5.26	3188	27553	111242
17	1995	61,200	5.26	3219	26501	102130
18	1996	62,700	5.26	3298	25857	95121
19	1997	65,400	5.35	3499	26126	91741
20	1998	68,400	5.35	3659	26023	87227
21	1999	72,600	5.35	3884	26306	84166
22	2000	76,200	5.3	4039	26050	79558
23	2001	80,400	5.3	4261	26177	76312
24	2002	84,900	5.3	4500	26326	73258
25	2003	87,000	5.3	4611	25692	68245
26	2004	87,900	5.3	4659	24722	62683
27	2005	90,000	5.3	4770	24107	58346
28	2006	94,200	5.3	4993	24031	55517
29	2007	97,500	5.3	5168	23688	52238
30	2008	102,000	5.3	5406	23601	49681
31	2009	106,800	5.3	5660	23535	47290
32	2010	106,800	5.3	5660	22414	42991
33	2011	106,800	5.3	5660	21347	39082
34	2012	110,100	5.3	5835	20959	36627
35	2013	113,700	5.3	6026	20613	34386
36	2014	117,000	5.3	6201	20202	32168
37	2015	118,500	5.3	6281	19486	29618
38	2016	118,500	5.3	6281	18558	26926
39	2017	127,200	5.3	6742	18972	26275
40	2018	128,400	5.3	6805	18239	24112
41	2019	132,900	5.3	7044	17979	22688
42	2020	137,700	5.3	7298	17742	21370
43	2021	142,800	5.3	7568	17523	20147
44	2022	147,000	5.3	7791	17179	18854
45	2023	160,200	5.3	8491	17830	18679
			Total	$195,067	$1,072,150	$3,898,100

Whether it is $195,067 or double that, $390,134, which includes your employer contribution, it isn't enough to match the maximum benefit social security will pay you at full retirement age in 2022 which is [$3,627 per month]… for life. (Normal retirement age is 67 years for those born after 1960.) Social security would pay you $43,524 per year and if you had to pay that out of your own savings here, you would have exhausted that retirement money after 10 years. If you had been able to invest the money you contributed yourself, the table above shows a big difference between investment returns averaging 5% per year or 10% per year. With a 5% return in the table above (assumes 5.3% contributed by you and 5.3% from your employer), you would have $1,072,150 after 45 years, and $3,898,100 if you had investment returns of 10%. It is intriguing to think whether social security could be privatized, but doing so would distort private markets. And investing prudently with a mix of bonds and stocks, it will be more difficult to achieve a 5% average annual rate of return on your investment than it was the past 45 years.

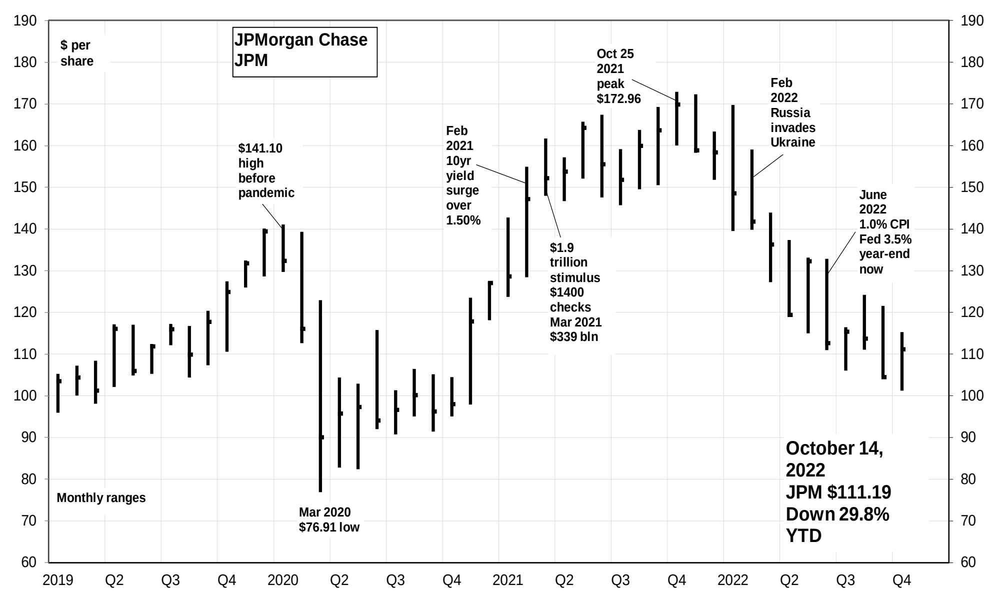
INTEREST RATES



Stocks went down again on another CPI inflation report on Thursday. It isn't clear if the news will cause the Fed to lift its terminal Fed funds rate forecast of 4.75% even higher. Their next forecast of the future is 2pm ET Wednesday, December 14, and they will have two more CPI reports before then. Right before CPI, S&P futures were up over 1% ahead of expected UK budget news, fell 2.4% on 0.6% core CPI for a second month, then closed 2.6% higher than Wednesday. A huge low-high swing that defied explanation although 3,500 seems to be holding, just like 3,600 did for a long time. US yields followed the news for UK Gilts most of the week. 10-year Gilts closed Friday at 4.39%, 214 bps higher than the 2.25% base rate, keeping in mind BOE officials say a "significant" rate hike is needed in November. Hope Friday's 4.02% US 10-yr close doesn't trade that wide to the 3.25% Fed rate.

JPMorgan down 29.8% YTD to $111.19 with $4 dividend

JPMorgan Chase rose 1.7% on Friday after earnings, while the S&P 500 fell 2.4%. Net interest income rose 34% to $17.6 billion on Fed rate hikes. Dimon was quoted in an interview Monday before Friday's earnings call this time and once again helped crash the market. What about stock markets, where do you see the trough for the S&P 500? Well, I don't know. It may have a ways to go, it really depends on that soft landing hard landing thing [for the recession coming in 6-9 months], and since I don't know the answer to that, it's hard for me to answer that. But it could be another easy 20%.

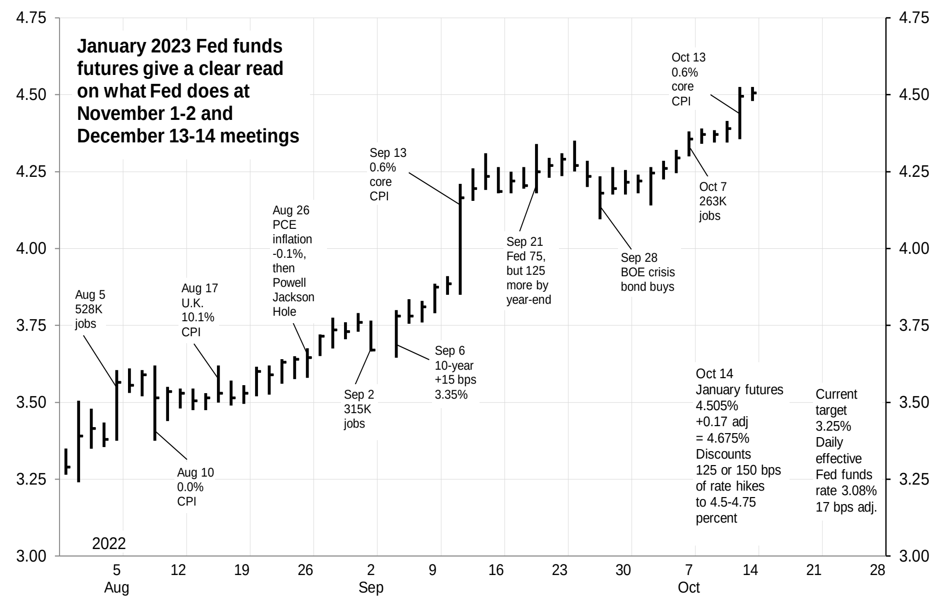


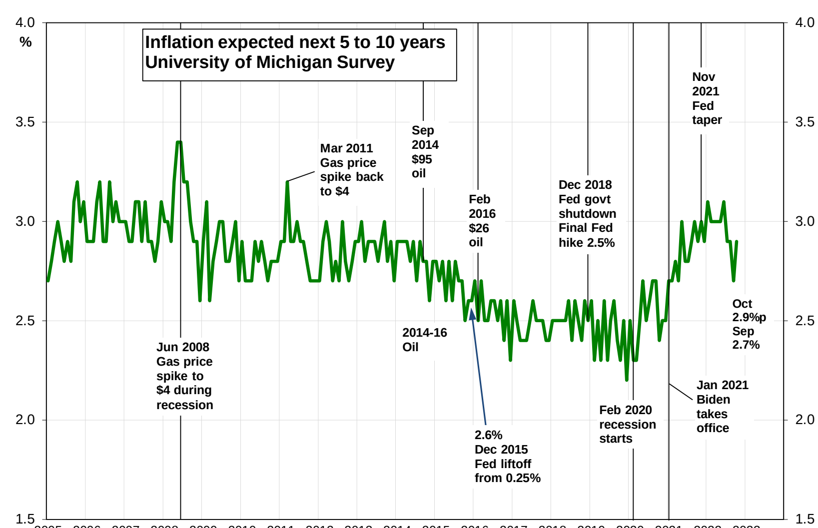
FEDERAL RESERVE POLICY

The Fed meets November 1-2, 2022 to consider its monetary policy. After a second month of 0.6% core CPI inflation, January 2023 Fed funds futures are closer to discounting 75 bps rate hikes at each of the final two meetings of the year in November and December. 150 bps of additional Fed tightening would put the Fed funds rate at 4.75% where the contract (adjusted) closed Friday at 4.675%. At the September 2022 Fed meeting, 18 of 19 participants saw the Fed funds rate at no higher than 4.5% at the end of this year. We will see what PCE inflation for September says when it is released on Friday, October 28 if there isn't a new global financial crisis first.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	12-Oct	5-Oct	28-Sep	21-Sep	3/11/20*	3/11/20
Factors adding reserves						to Oct 12
U.S. Treasury securities	5629.841	5633.926	5671.848	5673.919	2523.031	3106.810
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2698.158	2698.158	2698.158	2714.887	1371.846	1326.312
Repurchase agreements	0.000	0.000	0.001	0.000	242.375	-242.375
Primary credit (Discount Window)	7.669	7.511	6.470	6.913	0.011	7.658
Paycheck Protection Facility	12.356	13.847	14.030	14.175		
Main Street Lending Program	25.742	25.722	25.704	25.687		
Municipal Liquidity Facility	5.567	5.565	5.563	5.561		
Term Asset-Backed Facility (TALF II)	2.137	2.136	2.149	2.148		
Central bank liquidity swaps	3.307	0.300	0.216	0.273	0.058	3.249
Federal Reserve Total Assets	8808.8	8808.9	8844.9	8866.7	4360.0	4448.772
~~3-month Libor %~~ SOFR %	3.04	3.04	2.98	2.25	1.15	1.890
Factors draining reserves						
Currency in circulation	2287.827	2283.376	2278.657	2277.468	1818.957	468.870
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	583.513	622.131	661.920	690.286	372.337	211.176
Treasury credit facilities contribution	17.940	17.940	17.940	17.940		
Reverse repurchases w/others	2247.206	2230.799	2366.798	2315.900	1.325	2245.881
Federal Reserve Liabilities	5718.491	5732.414	5861.695	5862.936	2580.036	3138.455
Reserve Balances (Net Liquidity)	3090.307	3076.450	2983.206	3003.721	1779.990	1310.317
Treasuries within 15 days	66.698	71.778	92.355	85.002	21.427	45.271
Treasuries 16 to 90 days	346.045	347.710	316.644	325.495	221.961	124.084
Treasuries 91 days to 1 year	790.328	787.632	813.531	814.092	378.403	411.925
Treasuries over 1-yr to 5 years	1979.960	1979.974	1993.540	1993.545	915.101	1064.859
Treasuries over 5-yrs to 10 years	991.971	991.982	1000.920	1000.924	327.906	664.065
Treasuries over 10-years	1454.839	1454.849	1454.857	1454.861	658.232	796.607
Note: QT starts June 1	Change	12-Oct	1-Jun			
U.S. Treasury securities	-140.938	5629.841	5770.779			
Mortgage-backed securities (MBS)	-9.288	2698.158	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Swiss National Bank (SNB) borrowed $3.1 billion in U.S. dollar liquidity 7-day term swaps in the Fed balance sheet table above. They are borrowing $6.27 billion in a new 7-day swap that will show up on next week's H.4.1 balance sheet. During crises, central banks sometimes borrow dollars from the Fed when one or more of their national commercial banks are unable to get dollar funding from the market. A week ago, a SNB member said they were "monitoring the situation" with Credit Suisse which is expected to release a new strategy at the end of October.



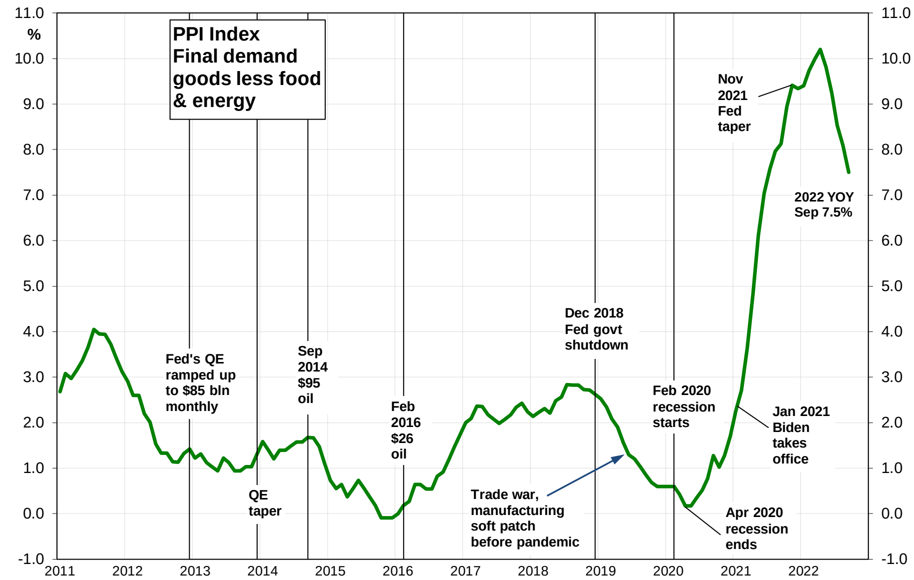


We can't possibly blame Friday's stock market sell-off on Michigan inflation expectations, can we? It was 2.7% in September and now October preliminary is 2.9%.

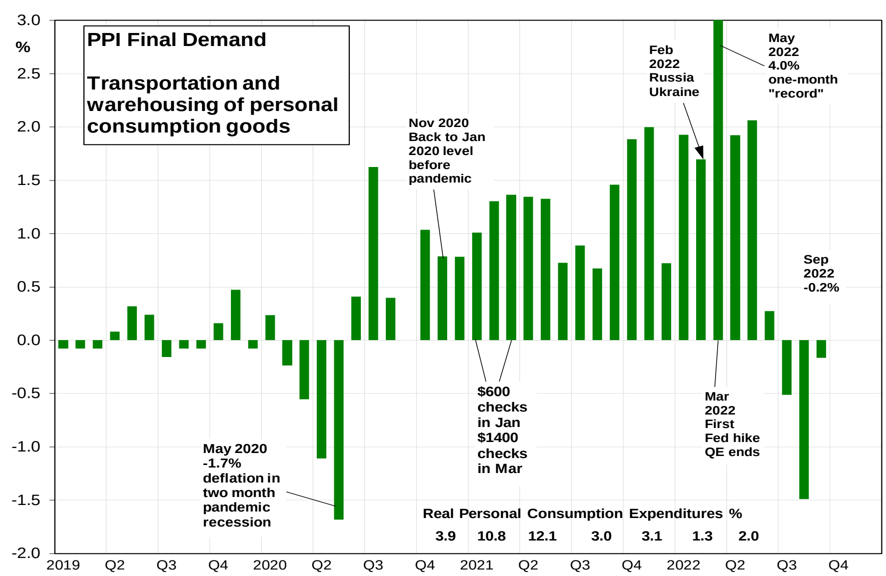
OTHER ECONOMIC NEWS

PPI core goods inflation flat (Tuesday)

Breaking economy news. PPI inflation bounced back by 0.4% in September after declines of 0.2% in August and 0.4% in July. Energy prices were behind the declines and now the increase in September as well. The good news in the report is that inflation pressures are cooling off at the producer level with final demand goods prices less foods and energy unchanged in September. There hasn't been a better inflation reading since these core goods prices fell during the pandemic recession in May 2020. Input prices on goods for consumers were flat and shoppers caught another break from the price of final demand transportation and warehousing which fell 0.2%. There is no inflation to pass on from producers making the goods this month and it costs less for manufacturers to deliver it from the warehouse so the consumer wins both ways.

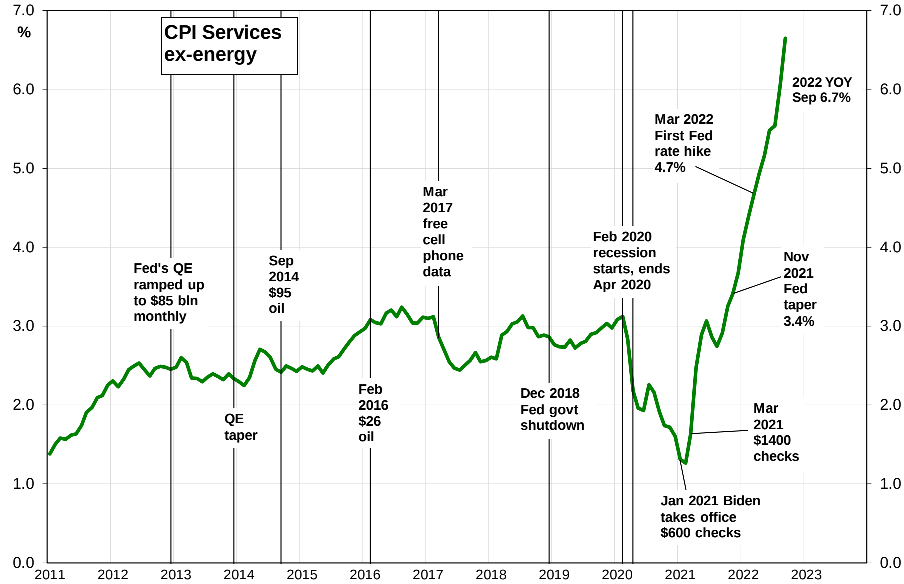


Net, net, energy inflation reared its ugly head at the producer level this month, but beneath the surface, core final demand goods prices cooled and showed no change at all. Inflation is all about pass-through costs at the lower level of production so this report counts as some relief for beleaguered consumers who face runaway inflation on the goods sitting on store shelves. The Federal Reserve's war on inflation hasn't been won yet, but at least the costs of goods at the producer level have stopped rising at a rate that looked out of control earlier this year. The pipeline no longer looks chock full of inflation. The Fed says they are going to pause next year at 4.75% and it looks for the moment that interest rates will not have to go higher as price pressures lessen at the producer level. Stay tuned. Story developing. PPI final demand goods less foods and energy were flat in August, bringing the year-on-year rate down to 7.5% from the "peak" of 10.2% in April 2022.



Another big one for core CPI (Tuesday)

Breaking economy news. Headline CPI rose 0.4% in September, but it was the second month of a 0.6% core CPI reading to 6.6% year-on-year that sent markets tumbling. Stocks were up about 1.2% before the report and fell down over 2.0% on the day within minutes. The rise in weekly jobless claims to 228K in the October 8 week, did little to lessen the sting. The Federal Reserve looks further behind than ever in its fight of a lifetime against inflation and the market is now pricing in over 125 bps of rate hikes at the final two meetings of 2022 in November and December. A 4-5/8% Fed funds rate at year-end would mean mortgage rates of 7-1/4%.



There was some good news in today's report in that commodities ex-food and energy were unchanged with used cars and trucks, medical care commodities, and clothing all falling, but services prices ex-energy exploded with an increase of 0.8%, the most since August 1990 when Iraq invaded Kuwait.

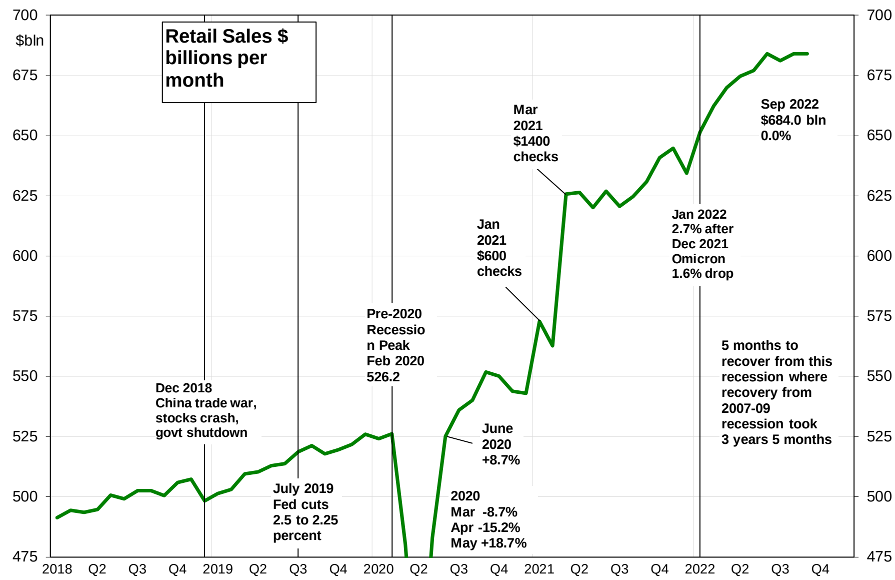
Net, net, the inflation fire is still spreading across the country at a rapid pace with evidence that the price increases are worsening the cost-of-living crisis, the most seen in a generation, as inflation spreads to services. Goods prices are often volatile and can go up or down on shortages, factory slowdowns, transportation troubles, but when inflation starts to infect the pricing of services, then the economy is in a whole lot of trouble. Services prices are stickier and price cuts are rare. Hiking the cost of borrowing with aggressive Fed rate hikes will have much less effect on services industries.

This inflation report today was an unmitigated disaster that crashed the markets because it shows whatever Fed officials are doing, it is just not working. The rate hikes aren't stopping motor vehicle maintenance and repair shops from raising prices to catch up with "inflation." These prices jumped 1.9% in September. Car insurance up 1.6%, medical care services up 1.0%. The Fed's rate hikes may have won the battle with core commodities prices softening, but they are losing the war when it comes to rampant price hikes for the gigantic services ex-energy sector which cover 56.8% of the economy. Today's red hot inflation report brings the economy closer than ever to recession next year as the Fed loses patience and jacks up rates even higher than the markets thought.

Jun 22		Monthly Percent Changes			YOY %
Weight	CPI inflation	Jul 2022	Aug 2022	Sep 2022	Sep 2022
100.0	Total	0.0	0.1	0.4	8.2
13.372	Food	1.1	0.8	0.8	11.2
5.077	Food away from home	0.7	0.9	0.9	8.5
9.200	Energy	-4.6	-5.0	-2.1	19.8
77.428	Ex-food & energy	0.3	0.6	0.6	6.6
3.999	New vehicles	0.6	0.8	0.7	9.4
4.008	Used cars/trucks	-0.4	-0.1	-1.1	7.2
2.419	Clothing	-0.1	0.2	-0.3	5.5
1.465	Medical care goods	0.6	0.2	-0.1	3.7
32.065	Shelter	0.5	0.7	0.7	6.6
23.502	Owner equiv. rent	0.6	0.7	0.8	6.5
5.900	Transportation	-0.5	0.5	1.9	14.6
6.772	Medical care services	0.4	0.8	1.0	6.5
	Special: Where inflation might come back down to				
56.306	Services ex-energy	0.4	0.6	0.8	6.7

Consumer summer doldrums (Friday)

Breaking economy news. Retail sales at the shops and malls this summer went virtually nowhere despite some ups and downs as the level of sales in September are virtually the same level as June. Fed officials wanted consumers to take the summer off and they did, but so far there is little to show for it in the central bank's inflation fight of the century. The other way to engineer a drop in aggregate demand is to make sure there are fewer consumers with paychecks, but Fed policy isn't working there either as the country remains fully employed with the unemployment rate at a record low of 3.5%. The only good news on inflation this morning was from the 0.4% drop in nonfuel imports prices in September. Maybe the Fed wins if the country imports less inflation if you will. Import prices have been declining every month since April this year so the aggressive Fed rate hikes that sent the dollar soaring have done some good.



Ups and downs the last few months for retail sales, but the third quarter sales are slightly stronger at 2.6% versus last month's 2.2% reading when there was only data through August. At least this keeps the economy from dropping a third consecutive quarter and economists don't have to explain why no, negative economic growth is not a recession this time.

Consumers took the summer off, but they were still out eating in restaurants and drinking in bars. Retail sales at food services and drinking places rose 0.5% in September after a 1.8% jump in August. Retail sales were flat overall in September, but there were big declines in furniture and electronics, sporting goods and hobbies and books with miscellaneous stores dropping the most, down 2.5%.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Sep 2022	Total	Sep	Aug	Year/year
Total Retail Sales	683,974	100.0	0.0	0.4	8.2
Motor vehicles/parts	127,565	18.7	-0.4	2.8	5.6
Furniture/furnishings	12,023	1.8	-0.7	0.9	0.9
Electronics/appliances	7,444	1.1	-0.8	-0.4	-8.6
Building materials/garden	43,024	6.3	-0.4	1.4	9.7
Food & beverage	79,486	11.6	0.4	0.3	6.4
Health/personal care	33,949	5.0	0.5	0.4	4.3
Gasoline stations	62,891	9.2	-1.4	-5.2	20.6
Clothing/accessories	26,232	3.8	0.5	0.9	3.1
Sporting goods, books	9,234	1.4	-0.7	0.6	3.7
General merchandise	70,132	10.3	0.7	0.4	3.7
Department stores	11,572	1.7	1.3	1.0	1.8
Miscellaneous retailers	15,526	2.3	-2.5	0.2	8.2
Nonstore retailers (internet)	109,246	16.0	0.5	-0.3	11.6
Eating & drinking places	87,222	12.8	0.5	1.8	11.4

Net, net, consumer purchases at shops and malls are slowing down, but the million dollar question is whether this flattening in the demand for goods and some services will be enough to break the back of inflation. The old rule of thumb is retail sales need to fall three consecutive months for a recession to take place, and this is nominal sales; with inflation, obviously real retail sales were down this month. Stay tuned. Story developing. The consumer took the summer off, eating out and hitting the bars on holiday, but the slowdown in purchases overall does not look like the country is about to go over the cliff into recession.

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