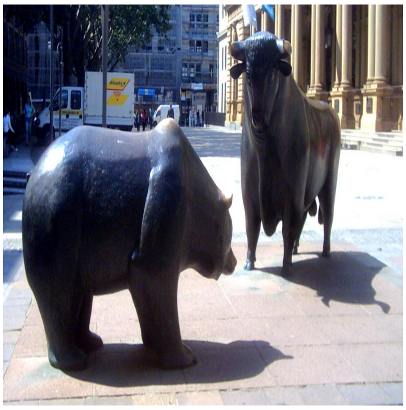

Peter Schiff: GDP and Stocks Down, Inflation Up; That Equals Recession

Description

GDP contracted in Q1. The stock market has been tanking. The inflationary fire continues to burn. As Peter Schiff explained in his podcast, this all signals a recession. And yet the Federal Reserve is on track to raise interest rates. How is this going to work?

Friday was a bad day for stocks, closing out a bad month for stocks, particularly for the NASDAQ. Peter called it the "tech wreck."

Peter was warning about the impact of rising interest rates and inflation on tech stocks before the year began. On Friday, the NASDAQ dropped 4.4% in a single day. On the month, the index was down 7.3%. It was the worst month for the NASDAQ since November 2008.

> The greatest recession since the Great Depression was just beginning and that's the last time the NASDAQ had a month this bad."

But it's even worse than that. On the year, the NASDAQ is down 17%. It's the worst first for months of any year since the creation of the NASDAQ in 1971.

> So, we had a brutal bear market during the stagflationary decade of the 1970s, yet we just had a first four months of the year that was worse than any four months going back to 1971."

The NASDAQ is down 23.4% from its high, officially deep in bear market territory, with all four of the FANG stocks dropping into bear market territory. Amazon had an awful day Friday after releasing disappointing earnings data. Peter said the problems for Amazon are just getting started.

> Americans are broke. Amazon makes money selling products, of course, not just to Americans but all over the world. But consumers are broke. They're spending too much money on food. They're spending too much money on gas. Most people don't buy their

> groceries and their gas on Amazon. They buy other things on Amazon, and they don't have any money left over after they pay for food and energy, after they pay for their rent."

Meanwhile, Netflix is down 73% from its peak. Facebook and Google are also down big. These are the stocks that everybody has been buying for the last several years.

> Everybody was investing in the rear-view mirror instead of looking through the windshield at what lies ahead. And so, this is particularly significant for the reverse wealth effect as a lot of Americans watch their stock market wealth go up in smoke."

Looking at the stock market more broadly, the S&P 500 was down 3.6% on Friday, leading to a weekly loss of 3.3%. And through the first four months of the year, the S&P 500 is down 13%. That is the worst four-month start to any year since 1939.

> You have to go to the Great Depression to find a four-month period at the beginning of a year where the S&P 500 did as poorly as it just did."

From its peak, the S&P 500 is down 14.3%.

And Peter reminds us that these numbers are not adjusted for inflation.

> The stock market is dropping, but prices are rising. So, in real terms, adjusted for the CPI, these losses are far greater than the nominal losses I am talking about right now."

The Dow Jones dropped 939 points Friday, a 2.8% decline on the day. On the year, the Dow is down 9.2%, and it's off 10.8% from its high – just in correction territory. The Dow is holding up better than the other index because it has more "value" dividend-paying stocks.

The Russell 2000 is down 11.5% on the year, but 24.2% from last year's high.

> This is significant because the Russell 2000 is more reflective of the domestic US economy. You don't have a lot of big multi-national companies in the Russell 2000. So, if you're looking for an indication of the strength of the US economy, and you're looking at the stock market, the best index to look at is the Russell 2000, and that is the worst-performing index, which should cause a lot of people who have this rosy view of the US economy to question their assumptions."

Last week, we got the initial GDP data for the first quarter. The projection was for an anemic 1% rise in GDP. Instead, GDP contracted by 1.4% annualized. That hardly screams "strong economy," But the mainstream tried to spin it that way, claiming collapsing GDP is masking a solid recovery.

> Talk about double-speak. That reached a new high, or a new low, depending on your perspective, of propaganda and Wall Street spin."

The Chicago PMI for April also missed, coming in below projections. The consensus was 61.3. The actual number was 56.4. It wasn't even within the low end of projections.

We're getting bad economic numbers showing a slowing economy and yet the inflation numbers continue to heat up, and the Federal Reserve remains on track for a 50 or 75 basis point rate hike this month, claiming the economy is strong enough to handle it.

When you look at the economic data and the weakness in the stock market, how is the Fed still confident that it can raise interest rates without a major recession? We could easily have another negative GDP print in Q2. After all, nobody expected it in Q1. That would officially bring us into a recession. What if the Fed is hiking rates into a recession? How bad will that recession be?

> If it's already this bad and we have interest rates at 0.25%, how much worse is it going to be if interest rates are higher? It seems amazing to me that people are so oblivious to the risk of recession, and how the Fed can be so confident, given how bad the numbers already are, that rate hikes aren't going to cause a recession because the economy is so much stronger today than it ever has been in the past or at any other time when the Fed has been hiking rates when objectively, just looking at the data, it's never been this weak."

The only thing anybody can point to as evidence of economic strength is low unemployment. And that can change quickly.

Category

1. Economy-Business-Fin/Invest
2. Main

Date Created
05/04/2022