



**Update October 16<sup>th</sup> 2015**

***International advances, Wall Street balks – we are still living under monetary “martial law” – All index investors! – Euro Zone, is this a re-run of the 1930’s?***

***Why is an increase in inflation being correlated to more purchasing power?***

***Overseas markets more optimistic than Wall Street – Much ado about earnings – or is it about the Federal Reserve?***

Overseas markets rallied in the wake of Wall Street’s performance yesterday. US investors are now looking to today’s US industrial production and consumer sentiment to gauge the path forward with regard to monetary policy. While there has been much ado about earnings, we continue to see corporate results as important but not as the key driver.

We are seeing more headlines about central banks than about global groups - a strong indicator that monetary “martial law” is still in force. We may well experience a transition from an economic state of emergency to a recession without having ever normalized monetary policy.

***We are now all index investors***

Investors have reduced the panoply of investable assets down to its simplest binary expression – fixed income, Treasuries – stocks, S+P 500. While we may not all be Keynesians, we are now all index investors. Markets are abandoning any pretense to stock selection and focusing on the “carry trade”.

***Euro Zone – is this the waiting room of the 1930’s?***

Turning to Europe, the Euro Zone is now once again in deflation, with the price index falling -0.1 per cent. While the blame is being put once again at the door of low energy prices, this excuse is growing stale. The lower oil price was expected to increase business and consumer activity, raise demand and lift prices.

Chinese deflation and still struggling consumers have put paid to this notion and we see the ECB as eventually having to take further action.

***Focus on the US***

***Two per cent not enough to lift all boats!***

Yesterday, US core CPI came in slightly higher than expected. The fact remains that most companies require a substantially higher rate than the two per cent metric to exercise any pricing power.

***No direct correlation between an increase in inflation and more purchasing power***

We would be ill-advised to see an automatic correlation between an increase in prices and a rise in purchasing power. Consumers are wary of pulling the trigger until they see an increase in wages and a better choice of jobs.

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*We reiterate that we see the US as experiencing growth without development – with increases in GDP now acting as a “trickle up” mechanism. It is a sobering thought that at least half of the population has less than 1000 dollars in the bank.*

### ***Empire and Philadelphia indices disappoint – US looking good by default versus Euro Zone***

*As concerns the march of the real economy, the Empire and Philadelphia indexes were very weak with a pronounced contraction in manufacturing orders. The US economy – when not grinding to a halt – appears to be slowing and can only hope to shine by default when measured against the Euro Zone.*

### ***Jobless claims low – so what? Labor now cheaper than capital***

*We had a further confirmation of the separation of powers between employment and growth with today's jobless claims, which we are told are the lowest since 1973. Companies not firing are not solving the large part of the workforce still missing in action.*

*The flaw in US labor statistics is that they are being compiled on a shrinking sample, which may soon - to use insurance terminology – no longer be actuarially significant.*

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Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB, SIPC) based in New York City.

He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M. Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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