# Weekly Market Summary

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## Caught Between a Stubborn Federal Reserve & a Mad President?? Join the Club!!

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James Grant is an American writer, publisher and a market research Guru. He began his journalistic career at the Baltimore Sun in 1972 and joined the staff of the prestigious Barron's in 1975. Success however only came later, with the release of Mr. Market Miscalculates (2008), a collection of Grant's articles published over the preceding 10 years, which elicited an appreciative review in the Financial Times. "*If Grant could see what was happening this clearly,*" wrote John Authers of the staff of the FT, "*and warn of it in a well-circulated publication, how did the world's financial regulators fail to avert the crisis before it became deadly, and how did the rest of us continue to make the irrational investing decisions that make Mr. Market behave the way he does?*" Grant is also the founder of Grant's Interest rate Observer, a twice-monthly "value-oriented and contrary-minded journal of the financial markets".

In recent interview appearances on CNBC, Grant rightly noted that the Federal Reserve would not end up raising interest rates as aggressively as previously projected. "*I think the Fed will definitely blink*," Grant told CNBC. "*I don't know when it will reverse course; I suspect sooner rather than later*." Grant added that investors will know the Fed is "*blinking*" when they hear it: "*We are going to be data dependent; We are concerned about where growth is; We are stepping back from time to time ... And we are watchfully waiting. That is what it is going to sound like!*" Additionally, "*when the Fed steps back, citing the difficulties of slowing world growth, I think the Fed would be slower to dispose of the more than $4.0 trillion in assets that remain on its balance sheet*", Grant suggested; Such a move would also act as additional easing.

With the said, the US central bank "half-blinked" last Wednesday. Looking past market fury and White House criticism, Fed officials unanimously voted to hike the o/n benchmark interest rate by 25 bps (new range of 2.25% to 2.50%) in their final decision for 2018, matching the consensus forecast - even as market's expectations had recently dwindled on account of depressed equity/oil prices and weaker global data. In his ensuing press conference, Chairman Jerome Powell emphasized that whilst the Federal Reserve takes financial conditions into account when setting policy, they are only one of many factors it considers. Throughout this year, the Fed has downplayed the impact of market fluctuations on the economy, instead focusing solely on its mandate (stable prices and low unemployment); As long as the country's economic fundamentals are sound, the financial markets can do whatever they want! Markets – however- were not pleased with that outcome: Disregarding a dovish change in forward guidance (a data-dependent FOMC language, a revised Fed's dot plot that only assumes two rate hikes in 2019 and possibly a Fed on hold in 2020), equity markets cratered halfway through the press conference and have continued falling since (the Dow Jones Industrial Average has now dropped 1,200 points - or 5.0% - since Wednesday's Fed announcement). US Treasuries, on the other hand, witnessed a sizable jump in prices (drop in yields), with 10-year US Treasuries – the US bond market's bellwether – last yielding 2.796% (after trading to a high of 3.26% in early November 2018!).

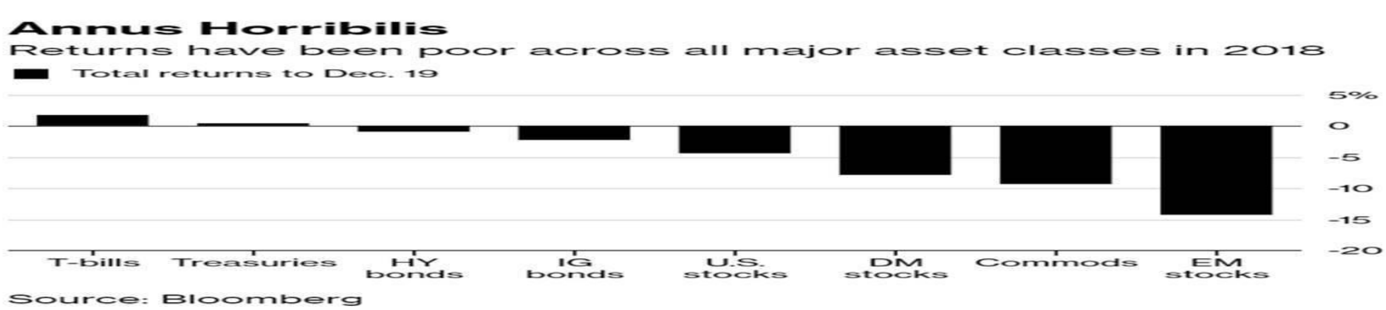
Which brings us to the next critical question: Do markets know something that the Fed doesn't? Or is this another investors' overreaction, as Treasury Secretary Steven Mnuchin recently suggested? The Fed's reliance on hard economic data surely leaves it vulnerable during turning points in the economy (especially since various critical economic indicators - such as GDP, CPI & Unemployment Rate - are by nature lagging gauges). Additionally, markets are well-known to fluctuate heavily, and more so around year-end when liquidity dries up. Still, the earliest signals that something is wrong in the larger economy usually come almost exclusively from financial markets:

The single most reliable signal — the willingness of lenders to deal with borrowers with even a minimal amount of default risk - may come from the credit markets. These financial measures can move sharply and decisively, providing an early warning of a recession that may be as much as a year away.

More importantly, the Fed can't isolate itself totally from Trump's impulsiveness, vanity and cronyism – which could sooner or later tank the US and global economy! (check our August 3rd Weekly Market Update "*Are President Trump & Co. Deliberately Targeting the Global Economic Recovery?"* – a market summary that can be accessed on GIB's website www.gib.com ,under the Treasury section). It is the same "Mad" President that has unilaterally launched a series of trade wars that will damage the global economy in 2019, whilst approving tax cuts - sold by his administration & the Republican party as growth-inspiring - that will so dramatically increase the U.S. government deficit once the US economy begins to slow (2019 & 2020). It can be tempting to mock President Trump because his craven rhetoric makes him sound ignorant of basic economic principles; To be fair to him, most presidents pursue policies that international-finance experts see as contrary to long-term growth. Moreover, all presidents boast when the economy is doing well and blame others when it fails; And all Presidents get angry at central bankers when they raise rates. BUT they just don't speak publicly about it and try so nakedly to manipulate the process! Trump, on the other hand, mocks allies including NATO, France/Canadian/British leadership, insults the Federal Reserve and its Chairman, threatens to revoke reporters' credentials – calling them fake and losers. In other words, Trump's ability to distract effectively obscures his administration's mismanaging (with many political experts concluding that Trump's Genius is Simply his Entertaining Idiocy!). Over the past 48 hours, the US president has insisted that he would not sign a spending bill to prevent a partial US government shutdown (expected for later tonight or tomorrow morning) unless it includes the $ 5 billion Trump is demanding for a "beautiful" wall along the southern border.

Also, Trump's latest decision to withdraw American forces from Syria on the basis that the Islamic State group had been defeated (the announcement – conveyed in a tweet on Wednesday – could plunge the volatile Middle-East into profound uncertainty! It also appears that US forces on the ground were as surprised as the US's Kurdish allies, now gearing for a new fight alone against an imminent Turkish offensive!) has led his Defence Secretary Jim Mattis to submit his resignation yesterday evening. With the ousting this month of John F. Kelly as White House chief of staff, Mr. Mattis was the last of Mr. Trump's old-guard national security team and to a large extent a voice of reasoning / an island of stability amidst the chaos of the Trump administration. His departure will leave policy in the hands of warmongers such as Mike Pompeo, the president's second secretary of state, and John R. Bolton, the third White House national security adviser (I would personally recommend Rudy Giuliani for recent White House openings, another Trump's Clown!).

Last, but not least, the below reproduced Bloomberg graph analyses expected returns for 2018 (with 10 more days to go before year-end) across investments in different asset classes. The good news is that in terms of losses, there have been worse years. But for sheer breadth of poor performers, 2018 is shaping up to be a woeful year for investors -- the worst ever by at least one measure: Out of eight major asset classes tracked by Bloomberg, just two are on track to deliver positive total returns this year (Treasury bills top the list, which tells its own story, while emerging-market stocks fare worst).



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