Weekly Market Summary

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God Wanted Trump to Become President!! Even Fed Chair Jerome Powell is Starting to Believe the Same!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Last week, we wondered whether one ought to look at the glass "*half full or half empty*" and ended up making a case that since optimism is a good belief, it would be most appropriate to remain a realist with a clear bias towards the bright side - as seeing the glass half full and assuming that reason will eventually prevail can surely turn a person's life into a lot more pleasant experience! Little did we know that Trump's God had other plans in place for us!!

On Wednesday morning, White House Press Secretary Sarah Sanders – another Trump's clown - told the Christian Broadcasting Network (CBN) that Donald Trump was chosen by God to be president in 2016, "*I think God calls all of us to fill different roles at different times and I think that he wanted Donald Trump to become President,*" Sanders told CBN News. "*That's why he's there and I think he has done a tremendous job in supporting a lot of the things that people of faith really care about*," Sanders added. The Washington Post had previously reported Mr Trump won 80% of the white evangelical vote in 2016, a higher share than Republican presidential candidates Mitt Romney and John McCain in previous elections.

Later on in the 20-minute interview, the press secretary said Trump was a "*natural-born leader*," especially when it comes to immigration policy. "*No matter what the topic is, he's a natural born leader, and so something that is this big of a priority for him, you can expect him to continue to lead on the effort*." President Trump's insistence on funding for a Mexican border wall brought about a crisis with Congress and the longest government shutdown in U.S. history. Trump signed legislation last Friday to temporarily end the 35-day shutdown, but not the fight over his border wall ("*I wish people would read or listen to my words on the Border Wall. This was in no way a concession*"! ☺). The measure however funds the government for only three weeks, until February 15th, while lawmakers try to reach a wider deal on immigration. Sanders said the White House was counting on Congress for a deal: "*Now we're counting on members of Congress to come together and work out a deal that actually addresses those problems.*" When asked about House Speaker Nancy Pelosi position on the proposed border wall - a divisive issue at the heart of the longest US government shutdown in history - the press secretary attacked Ms Pelosi's suggestion such a barrier was immoral. "*Honestly, it's very hard at this point to even take a lecture from Democrats on what is moral and what isn't*," she said, calling it a "*ridiculous charge*" and saying Ms Pelosi "*may even regret making that comment*".

The interview comes days after Mr Trump tweeted his support for Bible study, just to be quickly rebuffed by Civil Liberties Union.

Several US states have legislation pending that would make Bible literacy courses part of public school education, whilst it is already legal to teach about the Bible in others. The American Civil Liberties Union attacked Mr Trump's endorsement, saying that "*more often than not, public school Bible classes resemble Sunday school lessons and violate students' and parents' First Amendment rights.*" "*Public schools are for education, not religious indoctrination,*" senior attorney Heather Weaver wrote. This topic has been swallowed in recent decades by politics and culture war that usually blur facts. But besides that, Trump, who has routinely portrayed himself as a man of God, had to deal with a competing tweet from an actual man of God: According to HuffPost (politically left-leaning American news and opinion website), Pastor David Lewicki took to Twitter Tuesday to state that not only was he pastor of New York City's Marble Collegiate Church for about five years where Trump was on the member rolls, he had never seen Trump at the church. "*Not at Bible study, not a service. Never*!"

Moving to more relevant market news, and after putting traders on notice six weeks ago to prepare for further increases in US interest rates throughout 2019 (a clear outcome of the December 19th, 2018 FOMC meeting), the Federal Reserve last Wednesday executed one of its sharpest U-turns in recent memory. Leaving the benchmark rate unchanged at 2.25-2.5% in a unanimous 10-0 vote (so reassuring that no one voted for a rate cut!! ☺), Jay Powell - the Fed chairman - unveiled new language that opened up the possibility that the next move could equally be down, instead of up. Forecasts from the Fed's December meeting that another two rate rises are very likely this year now appear to be HISTORY! Changes to the Fed's previous guidance were needed, Mr Powell argued, because of "*cross-currents*" that had recently emerged: Among them were slower growth in China and Europe, trade tensions, the risk of a hard Brexit and the federal government shutdown (presidential bashing excluded?!). Financial conditions had also tightened, Powell added.

Yet the about-face left some Fed-watchers wrong-footed and confused (pick me!!). Many of those hazards were already perfectly apparent in the central bank's December meeting, when it lifted rates by a quarter point (25 bps) and kept in place language pointing to further "*gradual*" increases. "*It was a big change, and a surprising one*," said Roberto Perli of Cornerstone Macro, of the Fed's new rates outlook. "*The fact that a convincing justification was lacking is perplexing*." Michael Feroli - US economist at JPMorgan Chase - noted he could not remember such a big change of direction by the Fed absent a major shift in the economic backdrop, calling the adjustment between December and January "*momentous.*" One explanation could be that more dovish officials such as Richard Clarida, the Fed's vice-chairman, were gaining sway over the decision-making process, he added. Another is that the Fed is being influenced by market pressure. Michael Gapen of Barclays said it was difficult to read the outcome of the meeting as "*anything other than the Fed capitulating to recent market volatility*". Some of the guidance the Fed gave on its balance sheet policy also added to that impression. The US central bank has recently been deluged by complaints that its balance sheet reduction programme is destabilising markets - a notion that officials find dubious. Nevertheless, the Fed accompanied a new statement describing its preferred rate-setting framework with reassurances that it would adjust "*any*" of the details of the asset reduction plan if economic or financial conditions warrant it.

Wednesday's FOMC meeting was hardly the first time that jittery markets have convinced the US central bank to adjust its policy plans. In early 2016, for example, an outbreak of market volatility prompted the Fed, then led by Janet Yellen, to sharply trim back the number of rate increases it was considering. The so-called taper tantrum in 2013 under Ben Bernanke spurred the central bank to delay plans to slow its asset purchases. A mostly dovish Fed message this time around (pause on rates, flexibility in relation to future balance sheet size adjustments and still strong US growth) pushed stock markets higher across the globe, with Wednesday's Wall Street rally extending into China and Europe, whilst investors continued to buy US government debt (pushing prices higher and yields lower) on the prospect of an earlier-than-expected halt to Fed rate rises. That was especially true for shorter-dated Treasuries, where the yield on two-year paper fell under 2.50% on Thursday and again this morning, pushing it almost 50 basis points lower from a high reached in early November 2018 (great market concession that supports putting-on cheap interest rate hedges, if you ask me!). The US dollar continued to weaken across the board, with China's currency touching a six-month high.

The main concern now is that the close data dependence approach means a reactive Fed, potentially whipsawed by market movements and necessities, whilst clear direction becomes rare or absent! For his part, Mr Powell roundly rejected suggestions by reporters that there was now some sort of "*Powell put*" in which the Fed comes to the rescue when Wall Street is in a swoon. His only motivation, he added, was "*to do the right thing for the economy and for the American people. That's it.*" The Fed chairman also dismissed any notion that the central bank had altered the course of monetary policy in the face of presidential lobbying. President Donald Trump has made repeated public demands that the Fed stop lifting rates, but Mr Powell repeated past assurances that the Fed ignores such political considerations. "*We're human, we make mistakes, but we're not going to make mistakes of character or integrity*," he said.

Last, this afternoon brings the release of the all-important US payroll release* (4:30 pm Bahrain time release). Bloomberg consensus is for January payrolls to have risen by a healthy 165,000 (following a spectacular 312,000 jump in NFP for the month of December). It will also be worth keeping a close eye on the other important elements of the report, namely the unemployment rate (expected to remain unchanged at 3.9%), average hourly earnings (likely to rise by a strong +0.3% mom & +3.2% yoy, in line with the December data), the participation rate (expected at 63.0%, down from 63.1% the previous month) and average weekly hours (expected unchanged at 34.5 hours). The recent rally in bond markets would suggest that investors are positioned for a weak job number on fears that the recent Fed capitulation to the demands of the financial markets and/or president Trump for a halt in interest rate hikes has a more subtle root (i.e. the idea that the Fed & Powell know something worrying about the US and world economy, of which investors are unaware). Guess will have a better feel in exactly 3 hours from now!!
(**Headline payrolls growth blew past expectations with a 304,000 gain in January. The unemployment rate ticked up to 4.0%)*

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