

Wednesday, September 18, 2019

Good Afternoon,

The Federal Reserve decided to cut rates by another quarter point today. Initial stock market reaction was positive, but as news emerged that 3 of the 10 Fed Governors voted against the rate cut, stocks sold off broadly. This dissention also puts future rate cuts in question. As we've discussed before, markets were pricing in several rate cuts by year end and today's Fed action appears to dampen those hopes. In reality, the Fed will remain data dependent and will cut rates further if the economy weakens. The Fed seems to recognize that it overstepped on rate hikes in 2018, and we think the central bank will be careful not to do the same on cuts this year.

The good news is that the Fed clearly believes the US economy is in decent shape. While the global economy shows signs of weakness, ours continues to grow slowly with low inflation and strong employment. Chairman Powell did comment that trade policy decisions have created uncertainty for US manufacturers, and that may have an impact on future rate cut decisions. We have seen the European Central Bank move strongly toward monetary stimulus, but that course may change soon as new leadership takes over.

President Trump immediately expressed his displeasure with the Fed. He seems to think the US economy needs negative interest rates like some of our global partners. We don't think the Fed will bow to political pressure from the White House, and Chairman Powell has indicated he doesn't ever see the need for negative interest rates, even in times of crisis. The President likes to boast about the strength of US economy, so his call for large rate cuts appears a bit contradictory. Perhaps he fears a recession much more than any of the current Democratic challengers.

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As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a great week, and Go Bills!

Enjoy your week.

Wade

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