Biiwii Commentary

***e*Research Corporation** is pleased to provide an article, courtesy of Biiwii.com, and written by Joseph Calhoun of Alhambra Investment Partners, with a link provided to its website.

The article, starting on the next page, is entitled: **"Monthly Macro Monitor – November 2018".**

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

But It Is What It Is: You can access Biiwii at its website: **www.biiwii.com**.

Notes From The Rabbit Hole: You can access NFTRH at its website: **www.NFTRH.com**

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Monthly Macro Monitor – November 2018

By **Joseph Calhoun of Alhambra**

Is the Fed's monetary tightening about over? ~~Maybe, maybe not but there does seem to be some disagreement between Jerome Powell and his Vice Chair, Richard Clarida. Powell said just a little over a month ago that the Fed Funds rate was still "a long way from neutral" and that the Fed may ultimately need to go past neutral. Clarida last week said the FF rate was close to neutral and that future hikes should be "data dependent" which makes this observer wonder what exactly past hikes were predicated on if not data. Maybe Powell's thinking has changed since he made those remarks and he sent Clarida – and a few others – out to deliver the message that monetary policy is no longer on auto-pilot. Or maybe the bulls just want that to be true.~~ Yes.

And my admiration for Chairman Powell rises again.

The speech he gave at Jackson Hole a few months ago may turn out to be one of the most important in the history of the Fed. He made it clear that, while his predecessors may have depended on their academic models, he would not.

With his speech to the Economic Club of New York today (Friday) he proved it. It has been obvious for some time now that the "booming economy" narrative was kaput. Our Jeff Snider has been writing about it for months and the market has been signaling it as loudly as it can. Powell finally got the message. It would have taken a crash for Bernanke or Yellen to believe the market over their models.

I think Powell got pretty much what he wanted from this tightening cycle; or at least this part of it to date. The economy has slowed from the tax-cut induced spurt, but not so much that it raises the risk of recession significantly. Stocks and junk bond valuations have corrected somewhat, but not so much that it should impact confidence. So far, so good I would say.

While there is a soft tone to the economic data releases of the last month, the overall picture is still one of an economy growing slightly above trend. Maybe a little less above trend than last month but, still, above trend if you take trend to be 2-2.5% GDP growth.

I never bought the idea that the 3% growth of the last couple of quarters was sustainable so the idea that growth is falling back to the low 2s just is not a big surprise.

There has been a litany of one-off events over the last year that made GDP growth look better than the underlying trend. We should call the last year – with rebuilding from four hurricanes, front running of tariffs, and a federal budget blow-out – the Potemkin economy. It looks okay on the surface but there is not any depth to it. I think we are about to find out what it really looks like behind the facade as those three big artificial stimuli wear off.

Our market indicators were already pointing to the need for a pause before Powell talked. Short-term interest rates were pulling back, and inflation expectations waning. Interestingly, real rates have not been affected much recently, meaning that real growth expectations have been fairly steady. That, again, seems like an almost ideal outcome for Powell – inflation contained in a way that leaves real growth unaffected.

The markets were obviously thrilled with Powell's verbal guidance. What remains to be seen is if this will be anything more than a one day or one week move. There are some definite warning signs in the economic data, especially with housing. Capital spending is also worth watching closely with oil prices down so much from the highs. We have become too dependent on high oil prices and the growth in shale production for my taste, so I welcome a slowdown in drilling. But, ultimately, we are going to need more investment to sustain economic growth and right now we are not really getting it.

The next big event is the G-20 meeting where China and the USA will finally face off over trade. Expectations are building for some kind of deal but I am still skeptical. Blaming China for whatever ails the U,S, economy is a proven political winner for both parties and especially for President Trump. I would not expect him to give that up without something tangible and big. Expectations have been building for a deal, so a lack of one could be a big disappointment – for good reason. Tariffs are taxes and raising them has consequences for economic growth.

Economic Growth & Investment

BW: This article continues at length with a myriad of charts and analysis. If you wish to read these comments, and I highly suggest that you should if you are interested in a real hard look at the U.S. and global economies, you can access the article HERE.

Wrap-Up

I have read a lot this week about how Chairman Powell and the Fed blinked, succumbing to either market or Presidential pressure, depending on the politics of the one opining.

I do not agree with the latter postulation. Powell is not going anywhere no matter how many times Trump insults him by tweet. (Just an aside: what has Trump said to Powell in private, if anything? I would love to be a fly on the wall for that meeting. My impression is that Powell would not be intimidated in the least. Job security will do that for you.)

As for the former supposition, that is exactly what the Fed should do – respond to changes in market-based indicators of economic health.

Chairman Powell, unlike his predecessors, is not trying to set monetary policy based on what he or the staff's models think *should* be happening, but rather on what *is* happening. That is why I said above that his Jackson Hole speech may be one of the most important in the history of the Fed. Powell is pragmatic and humble, traits we have not seen in a Fed chairman in a long time. He knows what he does not and cannot know.

The economy is slowing somewhat right now but that should not be surprising. I said last year that the changes in the tax code just were not big enough to raise growth much and that has proven true. Now that the short-term benefits are wearing off, growth is falling back to the previous trend – with a bigger debt and deficit. But going back to trend is not a recession either. It is just...normal.

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