

## The Fed Could Be Completely Out Of The Game In 2019

eResearch Corporation is pleased to provide an article from *The Reformed Broker*, featuring Josh Brown.

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**The Reformed Broker** is a blog about financial markets and the economy.

From Josh Brown's website: My blog is about markets, politics, economics, media, culture and finance. I'll use statistics, satire, anecdotes, pop culture references, sarcasm, fact, fantasy, and any other device that I feel necessary to get my points across.

What I don't do on this site is give financial advice or tell anyone what to invest in. The Reformed Broker is a forecast-free blog. What I will do on this site is provide you with a running commentary of my market-related insights and thoughts as events unfold. I'll point you toward other interesting content around the web. I'll challenge your perceptions, call it like I see it and, occasionally, I'll make you laugh.

A link to the blog's website is provided here: <http://www.thereformedbroker.com/>.

**Joshua Brown** is with Ritholtz Wealth Management, a New York City-based investment advisor, whose clients are high net worth individuals, charitable foundations, retirement plans, and corporations. He helps people invest and manages portfolios for them. He is the author of the book *Backstage Wall Street*, from publisher McGraw-Hill. He is a regular contributor to: CNBC, Investment News, The Daily Beast, TheStreet.com, Forbes, CNNMoney, Fortune, Christian Science Monitor, The Faster Times, Marketplace Radio, The Wall Street Journal, and The Business Insider.

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Bob Weir, CFA: Contributing Analyst

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By Josh Brown  
January 2, 2019

Just a quick bite from Brian Wesbury's note out of First Trust this week...

The tricky part is what to expect from the Federal Reserve in 2019. Based on our economic projections, and if the economy were the Fed's only consideration, we could get as many as four rate hikes in 2019. After all, nominal GDP growth - real GDP growth plus inflation - is up 5.5% in the past year and up at a 4.8% annual rate in the past two years.

Raising rates four times in 2019, which is more than any Fed decision-maker projected at the last meeting in December, would only take the top of the range for the federal funds rate to 3.5%, still well below the trend in nominal GDP growth.

However, we think the Fed will have a two-part test for rate hikes in 2019. First, as we just explained, the economy itself. Second, the yield curve.

We think the Fed will be very reluctant to see the federal funds rate go above the yield on the 10-year Treasury Note and will strive to avoid either an active or passive inversion of the yield curve. An active inversion would be the Fed directly raising the federal funds rate above the 10-year yield; a passive inversion would be raising the federal funds rate so close to the 10-year yield that normal market volatility could send the 10-year lower than the funds rate.

As a result, we think the Fed will want to leave a "buffer zone" between the 10-year and the funds rate of about 40 basis points. So, for example, if the 10-year yield stays near its current level throughout all of 2019, we could end up with no rate hikes at all in spite of economic conditions.

Josh here – I like the idea of the Fed being restrained somewhat by the 10-year yield's insistence that we are not only not overheating, but possibly in danger of importing even more disinflationary sluggishness from overseas. In the cycle that ended in 2007, the Fed hiked and hiked and hiked until the long-end fell below the short-end and there was not even a pause to see if maybe they had gone too far.

We are now nine hikes into the cycle. The Fed should not feel rushed, and perhaps signals from the bond market will be heeded this time.

BW: The chart on the next page shows the yield on 10-year U.S. Treasury bonds beginning one year ago.



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Josh: By the way, for context, here is how the 10-year Treasury has spent the last few years...we've retraced quite a bit of the economic enthusiasm already. Shout to [Koyfin Charts](#).

Source:

*First Trust Monday Morning Outlook*

*First Trust – December 31st, 2018*

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**See ABOUT THE AUTHOR on the following page.**



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## ABOUT THE AUTHOR



Josh Brown is a New York City-based financial advisor and the CEO of [Ritholtz Wealth Management](#).

We help people align their investments with their financial goals and manage portfolios for them. Our clients range from high net worth households to corporations to retirement plans to charitable foundations. For younger investors and those just getting started, we've created the [Liftoff automated advisor](#) – a simple, low-cost way to access a professionally managed portfolio selected just for you.

He is also the author of the books [Backstage Wall Street](#) and [Clash of the Financial Pundits](#) from publisher McGraw-Hill. In addition, he serves on the advisory board of financial technology firms [Riskalyze](#), Vestwell, Digital Assets Data Corp as well as [CNBC's Financial Advisor Council](#).

In 2015, he was named to the [Investment News "40 Under 40"](#) list of top financial advisors.

## ABOUT THE REFORMED BROKER

The Reformed Broker began in November of 2008 and has become one of the most widely-read sites on the financial web.

This blog is about markets, politics, economics, media, culture and finance.

I'll use statistics, satire, anecdotes, pop culture references, sarcasm, fact, fantasy, and any other device that I feel necessary to get my points across.

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## In the Media

I have been featured in or have written for Fortune, Forbes, the Wall Street Journal, MarketWatch, Dow Jones Newswires, Bloomberg, Reuters, CNNMoney, Bloomberg, CNBC, the New York Post, Crain's New York Business, Investment News, Registered Rep, Financial Planning, Fortune, RIA Biz, Business Insider, American Public Media, NPR, TheStreet.com, the Washington Post, BuzzFeed, Barron's and the New York Times.

I am an on-air contributor to CNBC. My show, [The Halftime Report](#), airs weekdays at 12 PM ET. Our YouTube Channel, [The Compound](#), is blowing up. Check us out!

Follow our latest updates with the [Market Moment skill](#) on Amazon's Alexa!

I am available to comment on most topics for print, web, television and radio. [Get in touch](#).

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