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Jubak Picks

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Jubak Picks Daily Newsletter

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How Long Before Markets React To The Dark Side Of Today's Fed Decision?

Today, Wednesday, the financial markets are in love with the idea that the Federal Reserve will raise rates no more than once in 2019–and more likely zero, and that the central bank will re-examine its policy of letting its balance sheet run off to the tune of $50 billion a month as bonds in its portfolio mature. (That is equivalent to the monetary tightening that an interest rate increase would deliver. The Fed's balance sheet, which stood at some $4.5 trillion in October 2017, was an estimated $4.04 trillion as of December 2018.)

Just hours after the Fed's decision, I have already started to hear some worries from Wall Street.

First, there is the "What changed?" worry. Only a month ago the Fed was talking about two rate increases for 2019 and saying that its program of reducing the size of its balance sheet by $50 billion a month was on autopilot. Economists looking at the economy and scanning the horizon overseas cannot see any big news items that would point to a need to change direction so quickly. Which leads to a worry that the Fed is seeing something in its data that Wall Street economists are not seeing–yet.

Second, there is the "Fed sees a recession" worry. The Fed's decision to put off interest rate increase in 2019 has to be, right, because the central bank is worried that the economy is slowing. A decision to, maybe, stop running off the Fed balance sheet by $50 billion a month must mean, right, that the danger of a recession is real. Which leads to talk on Wall Street–but not by the Fed so far–that maybe Jerome Powell & Co. think that the situation is sufficiently dire that the next move will be to cut interest rates in 2020 to head off that recession.

I would like to point out that the U.S. economy grew at an annualized rate of 3.4% in the third quarter of 2018. Due to the only-recently partial shutdown of the Federal government, delivery of the next GDP report–that for the fourth quarter of 2018–has been delayed. Trump administration chief economic advisor Larry Kudlow has said that the report will be delivered next week.

Under some circumstances that third quarter 3.4% growth rate would be reassuring: It certainly puts a lot of turf between current economic conditions and a recession (which requires negative growth.) But I can hear the fretting: Does the Fed know something that justifies its current policy shift and indicates the economy is about to crater.

Remember that, at the end of 2018, Wall Street managed to talk itself into a recession frenzy. I would assume that the market is capable of doing that again.

Which leaves me with this puzzle: The adage of "Don't fight the Fed" would say buy stocks in this market. The possibility of the market talking itself into another recession frenzy, however, says that some degree of portfolio protection is still prudent.

I will take a shot at solving that puzzle in a post tomorrow.

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BW: See "About the Author" on the next page.

About the Author

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Web sites: www.jubakpicks.com; http://jubakfund.com/; http://jubakam.com/

BW: here is an excerpt from Jim's WELCOME message on his website

After twelve years with MSN Money, I am excited at being on my own. The move gives me a chance to bring you, my readers, more and better ideas for profitable investing. Each week the folks at the MoneyShow.com and MSN Money will publish seven of my posts from this blog on their sites. That is already an increase in your weekly dose of Jubak from the days when I wrote Jubak's Journal twice a week. But you will also find another 18 or so posts a week on my JubakPicks.com blog that do not appear on either of those two sites. (Although they have appeared as much as three days ago and as little as a few minutes ago, if they are really important) on my new subscription site at http://jubakam.com/)

Here I am aiming for five posts a day five days a week. I won't always get to those numbers. Some posts just take longer to research and write and sometimes, like everyone else, I run out of gas and need to take a break. But my goal isn't some arbitrary number of posts, anyway. The goal is to bring you the best market intelligence that I can on a schedule that keeps you at least one step ahead of the market.

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