HERITAGE CAPITAL LLC

Invest for Tomorrow. Live for Today.™

The Most Unanticipated FOMC Meeting

Today is one of the most unanticipated Fed statement days in recent memory. How will we ever survive without hearing that "today is the most important Fed day ever"? I say that because absolutely nothing is really expected today. Chairman Jay Powell did his 170 degree turn earlier this year and the Fed is now on a new course. Okay. Maybe, I am exaggerating a little bit. Perhaps, we will hear about their plans to end their sale of bonds purchased during their Quantitative Easing programs, but that should be about it.

Financial markets have ripped since Powell's embarrassing mea culpa in early January with stocks and bonds sharply higher. Crude oil is also up significantly and the dollar is marginally higher. Gold is basically flat.

Model for the Day

As with every Fed statement day, 90% of the time stocks stay in a plus or minus .50% range until 2pm before the fireworks take place. That should be the case today as well. After that, we usually see strength into the close roughly 75% of the time. That trend has been muted today after Tuesday's action. However, there may be a less frequent and negative trend setting up for after the Fed which would call for lower prices in the very short-term.

No Rate Move

The FOMC is absolutely not going to touch interest rates today nor at their next few meetings either. They are effectively on hold until further notice and the odds favor the next move to be a rate cut. Besides Powell and the rest of the FOMC doing an about face in early January, a few very important pieces of economic news have surfaced lately. None come as a surprise.

First, the European Central Bank cut their annual GDP forecast from 1.7% to 1.1%. As I have written about before, for all intents and purposes, Germany and Italy are already in recession. Second, China's economy continues to surely and steadily weaken. Finally, the February employment report in the U.S. was wildly weak although I feel fairly confident that it is going to be revised sharply higher.

Although the Fed's dual mandate calls for maximum employment and price stability, I do not believe they can ignore what's going on around the world. The global economy is soft. Continuing to raise interest rates here would certainly have detrimental effects on growth as well as likely strengthen our currency. Neither would be considered good for the global economy.

Right now, Goldilocks is alive and well and residing in the U.S. economy. Not too hot. Not too cold. The Fed would be backed into a corner if the U.S. economy re-accelerated again without Europe and China following suit. That would force Powell to raise rates and hasten recession.

Recession Coming in Late 2019 to Late 2020

Speaking of recession, I stand by my forecast from 2018 that the U.S. will see a mild recession beginning between Q3 2019 and Q3 2020 although I would happily be proven wrong. Economic data is decelerating. I believe we have seen the trough in weekly jobless claims along with the peak monthly new jobs created. Housing has been a challenge for some time and that does not appear to be changing any time soon. Credit cards delinquencies are spiking and auto loans, especially from millennials, are a big problem.

Don't get me wrong. The economy is not teetering on recession. I just listed the problems. GDP is still growing, coming off a 3.1% year with 2% likely in 2019. Wage growth is the best in many years and money is flowing back to our shores. It's going to take time for all this to wear off and some external shock to hit.

One thing I know for sure. Powell and the Fed will not forecast the next recession. Why? Because the Fed has never, ever, ever once correctly predicted recession in the U.S. or really anywhere for that matter. You could say that they are perfect in their incompetence. You could also argue that secretly they really do see problems coming down the road, but could never telegraph that publicly for fear of upsetting the markets. This is the argument I fall on the floor laughing my head off.

The Fed is always late. Had they started the rate hike cycle earlier or the asset sales, they could have avoided conducting them concurrently. I have said this from day one and never wavered; what the Fed was trying to do is like landing a 747 on I-95. It's technically possible, but so beyond likely to be successful. In fact, as I have stated many times, it has created a fertile landscape to grow recession.

Janet Yellen & Jay Powell Are to Blame

Let's get back to Jay Powell and the Fed. Longtime readers know that I was a very big fan of Ben Bernanke while I called Alan Greenspan the single worst Fed chair ever, or at least on par with Arthur Burns from the 1970s. I call it like I see it. For several years, I have been a very vocal critic of Yellen and Powell for trying to land a 747 on a postage stamp by raising interest rates AND selling fixed income assets, now to the tune of $600 billion a year. In the history of the world, no central bank has ever had the temerity to believe it could accomplish this without consequences.

Cue our Fed with Yellen and Powell.

This group is and has been either arrogant or ignorant or both. Look, the Fed is behind 90% of the recessions. They begin a rate hike cycle and push and push until the landscape is so fertile for recession that all it takes is a little spark. They did it leading up to the financial crisis. They did it during the Dotcom burst. They did it in 1990 with the S&L Crisis and Iraqi invasion of Kuwait.

This time, the pomposity has been taken to new heights by adding the program of what's been labeled Quantitative Tightening. The Fed is now selling the securities in the open market that they purchased during Quantitative Easing. These sales are effectively interest rate hikes by themselves. The markets and economy cannot withstand the Fed conducting both. And although the rate hike cycle appears to have ended, the damage has been done.

Now we have Greenspan and Yellen both forecasting gloom and doom. "Run for cover." "Crisis on the horizon." What a joke! Yellen remarked on her way out of Dodge that she didn't think we would have another financially related crisis in our lifetime. Now, all of a sudden, she sees a series of crisis.

Is this all in the name of selling books? Goosing demand for their 6 figure speeches? Or, do they really believe this, but just outright lied to the public when they were in charge? No matter how you slice it, Janet Yellen and Alan Greenspan are embarrassments.

To Your Financial Success,

Paul Schatz
President
Heritage Capital LLC

1 Bradley Road Suite 202
Woodbridge CT 06525

203.389.3553 Phone
203.389.3550 Fax

www.InvestForTomorrow.com

Street$marts is produced and distributed regularly via email by Paul Schatz of Heritage Capital, LLC
1 Bradley Road, Suite 202 Woodbridge CT 06525 Phone (203) 389-3553 Fax (203) 389-3550 - www.InvestForTomorrow.com

Important Disclosure Information

Heritage Capital LLC ("Heritage"") composite performance results represent time-weighted actual performance results for continuously managed Heritage accounts, which individual accounts Heritage believes to be representative of its investment management process (i.e. mutual funds and exchange traded funds) for each specific strategy during the corresponding time period. The composite performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, and the separate fees assessed directly by each unaffiliated mutual fund and exchange traded fund holding that comprised each account, and the maximum investment advisory fee that the accounts would have incurred (by applying the Heritage's current investment advisory fee of 2.00% as set forth in its current written disclosure statement) during the corresponding time periods.

Please Note: Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, equal the performance results reflected, or equal any corresponding historical benchmark index. The historical index performance results for all historical benchmark indices do not reflect the deduction of transaction and custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The historical performance results for all indices are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a Heritage program meets, or continues to meet, his/her investment objective(s). A corresponding description of each index is available from Heritage upon request. It should not be assumed that Heritage account holdings will correspond directly to any such comparative benchmark index. The Heritage performance results do not reflect the impact of taxes.

For reasons including variances in the investment management fee incurred, market fluctuation, the date on which a client engaged Heritage's investment management services, and any account contributions or withdrawals, the performance of a specific Heritage client's account may have varied substantially from the indicated portfolio performance results.

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise Heritage immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by Heritage) will be profitable.

Information pertaining to Heritage's advisory operations, services, and fees is set forth in Heritage's current disclosure statement, a copy of which is available from Heritage upon request Performance results have been compiled solely by Heritage, are unaudited, and have not been independently verified. Heritage maintains all information supporting the performance results in accordance with regulatory requirements.